

CHAPTER - I

SECTION 'A'

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF PRIs AND ULBs

1.1 Introduction

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

Assam has a very strong historical background of local self government. Post 73rd Constitutional amendment, the State enacted Assam Panchayat Act, 1994 and framed Assam Panchayat (Administrative) Rules, 2002 and Assam Panchayat (Financial) Rules, 2002 to enable Local Bodies (LBs) to work as the third tier of government. The State has also identified and amended other related laws to empower LBs.

There were 2407 PRIs and 89 ULBs in the State as on 31 March 2011. All the 2407 PRIs were in General Areas as the Panchayati Raj system does not exist in Sixth Schedule Areas. Local governance in Sixth Schedule Areas is vested with the Autonomous District Councils (ADCs). Of the 89 ULBs, 72 were in General Areas and governed according to the provisions of the Assam Municipal Act, 1956. The remaining 17 ULBs falling within Sixth Schedule Areas were governed by the rules framed by respective ADCs. Recommendations of Third Assam State Finance Commission (TASFC) did not cover the ADCs.

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

1.2 State profile

Assam is situated in the North East (NE) part of India. According to 2011 census, the State covers an area of 78,438 sq. km. with a population of 3.12 crore. The rural population in the State was 2.68 crore (86 *per cent*) whereas urban population was 44 lakh (14 *per cent*). The percentage shares of area and population of the State to that of the country are 2.4 and 2.58 respectively. The State has the highest population density among NE States at 397 persons per sq. km. As against decadal growth of 17.6 *per cent* at national level, the population of the State has grown by 16.85 *per cent* over the period 2001-11. The sex ratio of Assam at 954 females to 1000 males is higher than the national average of 940. Female literacy rate of the State rose to 67.27 *per cent* from 51.85 *per cent* in 2001. (source: *ecostatassam.nic.in*)

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

- (i) The Brahmaputra Valley comprising of twenty two districts in plains with a total area of 56194 sq.km;
- (ii) The Hill areas consisting of two districts with a total area of 15322 sq. km. and;
- (iii) The Barak Valley covering three districts with a total area of 6922 sq.km.

The districts are further subdivided into 56 *sub-divisions* and 145 *revenue circles* for the convenience of administration and revenue collection. The economy of Assam continues to be predominantly agrarian. The service sector along with tea industry dominates Assam's economy.

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

1.3 Size of Local Bodies (LBs)

The position of local bodies in Assam in terms of number, average population and average area is given in **Table 1.1**.

Table 1.1: Position of Local Bodies (LB)

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

1.4 Organizational Setup in State Government and Local Bodies

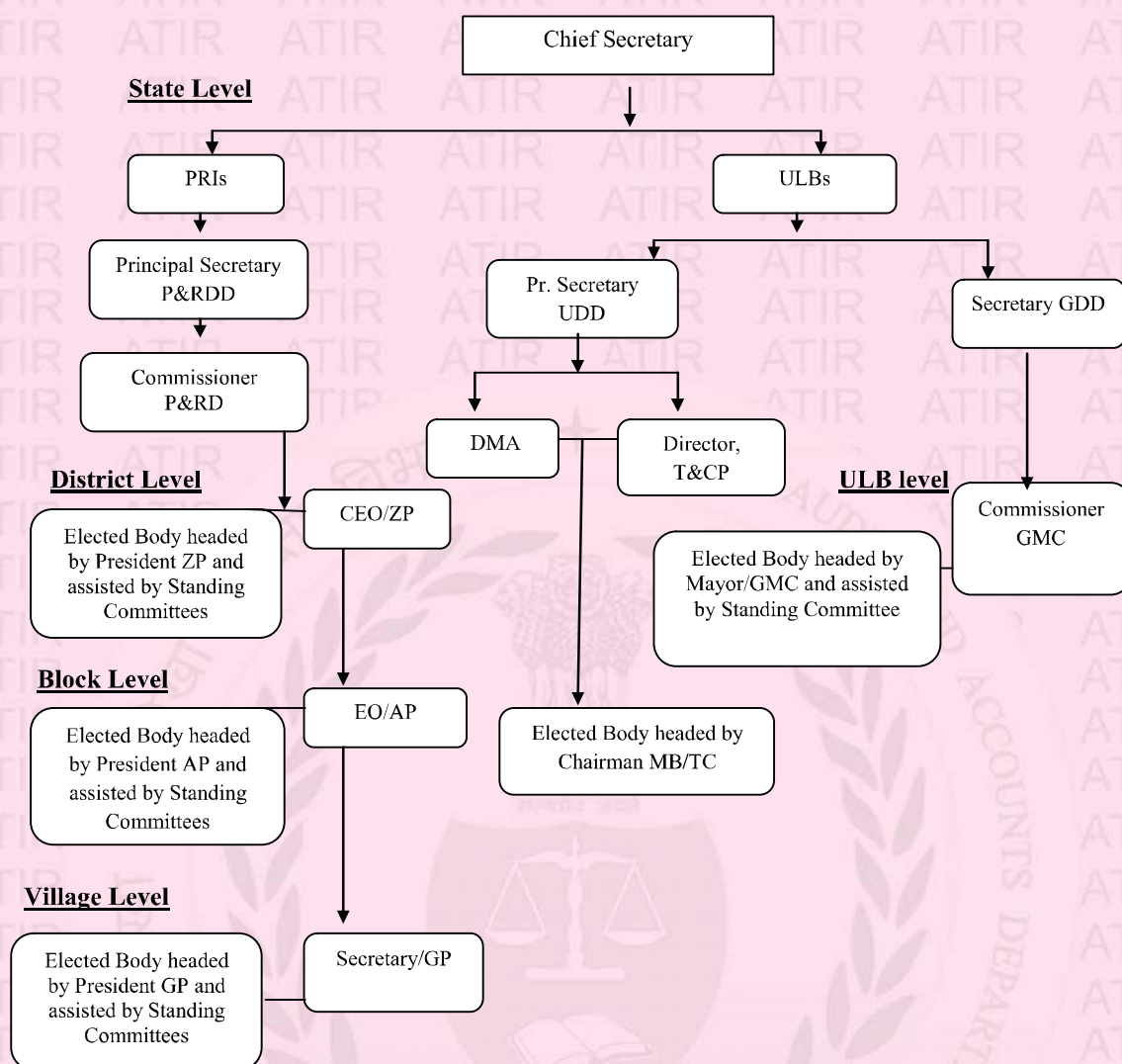
The Chief Secretary of the State is the overall in-charge of monitoring the functions and activities of local bodies in the State. The Principal Secretary, Panchayat and Rural Development Department is the administrative head of PRIs and is assisted by the Commissioner, Panchayat and Rural Development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

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

The Secretary, Guwahati Development Department is the administrative head of Guwahati Municipal Corporation (GMC).

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

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



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

CEO in a ZP, Executive Officer in an AP and Secretary in a GP carry out the policies and directions of the Parishad/Panchayat concerned, execution of works and development schemes. CEO of a ZP is also responsible for allocation of fund under Finance Commission grant and District Development Fund to the PRIs and implementing agencies in the district.

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

However, the Government created only the post of CAO (October 2010) for Zilla Parishad to which no appointment has so far been made by the State Government. Continuing delay in appointment of CAO, even after creation of the post contributed substantially to the occurrence of irregularities and deficiencies in the accounts of PRIs.

The executive function in the GMC is exercised by the Commissioner, GMC, under section 34 of GMC Act, 1971. As per section 53 of Assam Municipal Act (AMA), 1956, MBs may appoint Executive Officer with the approval of the Government. The Executive Officer shall function under the overall control of the Board and under the direct supervision of the Chairman. However, there is no executive officer in any MB or TC where elected body is functioning. The Chairman exercises the executive function.

1.5 Standing Committees

PRIs shall constitute standing committees to perform the assigned functions. Details of constitution of the standing committees of PRIs are given in **Table 1.2**

Table 1.2: Constitution of Standing Committees

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

Role and responsibilities of the standing committees are given in **Appendix-1.1**.

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

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

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

1.6 Staffing pattern of PRIs

As per the existing pattern laid down by the Assam Panchayat (Administrative) Rules 2002, grade III and IV staff together approved for ZP, AP and GP is 18, 8 and 3 respectively. However, the existing pattern is quite insufficient for PRIs to carry out their functions in view of their increasing financial and developmental activities. Even the staff in position is far below the prevailing norm. The present staff position of PRIs is shown in Table 1.3

Table 1.3: Present staff position of PRIs

PRIs	No. in each tier	Existing norm of staff	Total requirement as per norms	Staff in position	Casual staff	Shortfall against requirement as per norms
ZP	20	18	360	155	25	180
AP	185	8	1480	489	214	777
GP	2202	3	6606	2923	1573	2110
Total	2407	29	8446	3567	1812	3067

Source: – Preliminary report of the Fourth Assam State Finance Commission (FASFC) 2011-12

Shortfall of 3067 staff, even after engagement of large number casual staff to carry out regular works of maintenance of accounts and execution of schemes, indicated the extent of shortage of manpower in each level of PRI. There is therefore, an urgent need to make PRIs fully operational with adequate manpower support.

Engagement of casual staff in large number, where it exceeded 40 and 50 *per cent* of available manpower at AP and GP levels respectively, is bound to have adverse impact on the working of an organization as very little accountability and responsibility is expected out of such staff who are engaged purely on temporary basis.

There was no prescribed staffing pattern for ULBs and the Urban Development Department (UDD) did not take any steps to assess the number of officers and staff of different categories required for proper functioning of each ULB. As regards GMC, against the sanctioned strength of 3817 under different categories of posts, 1493 posts were lying vacant. A clear policy alongwith an action plan keeping in view the skill requirement of personnel and work load entrusted to ULBs under different programmes, schemes and projects needed to be formulated by the State Government.

1.7 District Planning Committee

In pursuance of Article 243ZD of the Constitution of India and Section 3 of AP Act, the State Government constituted District Planning Committee (DPC) in each District whose tenure is one year. The DPC consists of:

- a) The members of the House of People who represent the whole or part or the district.
- b) The members of Assam Legislative Assembly whose major part of the constituencies fall within the district.
- c) The President of the Zilla Parishad.
- d) The mayor or the Chairperson of the Municipal Corporation/Municipal Board/Town Committee as the case may be having jurisdiction over the headquarters of the district.
- e) Such number of persons not less than four fifth of the total number of members as may be specified by the Government, elected in the prescribed manner from amongst the members of the Zilla Parishad, Councilors of Municipal Corporation or the Municipalities as the case may be and the members of the Town Committees in districts on rotation annually and in proportion to the ratio between the population of the rural and urban areas of the district.

Deputy Commissioner is a permanent invitee to the DPC of the district. The President of the Zilla Parishad is the Chairman and Chief Executive Officer of ZP is Ex-officio Secretary of the DPC.

The functions of DPC include scrutiny and approval of annual plans of LBs, consolidation of plans prepared by LBs and preparation of draft development plan for the district. The DPC is to monitor quantitative and qualitative progress, especially physical

and financial achievements in the implementation of the approved District plan schemes and State plan relating to the district and is to evaluate the action programme already completed.

While the DPCs have been formed in all districts of General Areas, they were yet to perform their mandated functions as envisaged in the Constitution. Most of the schemes at the district level were planned and implemented as stand alone schemes without consolidating them into one district plan comprising all development schemes of the district. DPCs met very infrequently, only about once or twice in a year, and their functions remained perfunctory and incomplete without much participation by people. Thus, the mandate for institution of a comprehensive planning mechanism for the district remained to be met.

1.8 Constitution of SEGC and organizational arrangement under MGNREGA

Section 12 (sub-section 1 and 2) of the Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA) provides for constitution of State Employment Guarantee Council (SEGC) at the State level with a view to:

- a) Advising the State Government on all matters concerning the scheme and its implementation,
- b) Determining the preferred works,
- c) Reviewing the monitoring and redressal mechanisms from time to time and recommending improvements,
- d) Promoting the widest possible dissemination of information about the Act and the schemes under it,
- e) Monitoring the implementation of the Act and the schemes under it in the State and coordinating with the Central Council,
- f) Preparing the annual report to be laid before the Legislature by the State Government, and
- g) Any other duty or function as may be assigned to it by the Central Council and the State Government.

The Government of Assam constituted the State Rural Employment Guarantee Council in July 2008 with the Minister Panchayat & R.D. Assam as Chairman and the Commissioner & Secretary, P&RD, Assam as member Secretary and with 7 other official and 15 non-official members.

The following is observed in audit:

i) Constitution of the Council was delayed by more than two years as the scheme was implemented in February 2006 in six districts of the State.

ii) Only four women members were nominated to the Council instead of five in violation of sub-section 1 which provided that not less than one-third of the non-official members should be women.

iii) No dedicated support staff was provided to function as the secretariat of the SEGC. Thus, the Council did not have infrastructure, manpower and independent leadership and was not in a position to exercise its mandated functions in the intended manner.

iv) While the works implemented were generally within the permissible ambit of the Act, these were not determined in order of priority as provided in the Act and low priority works of road connectivity were given precedence.

v) The Council prepared its annual report only for 2010-11, so far, which was approved by the Legislature, but is yet to be circulated (February 2012).

As per Assam Rural Employment Guarantee Scheme, 2006, the Commissioner, P&RD Department was designated as State Rural Employment Guarantee Commissioner (SREGC) in addition to other duties and was responsible for fulfillment of objectives of the MGNREG Act, 2005 and discharge functions as stipulated in the Act. No officer of the rank of Commissioner was notified with the independent charge of State Rural Employment Guarantee Commissioner (SREGC).

At the field level, the BDOs were designated as Programme Officer (PO) in addition to other duties. No Additional Programme Officer was appointed to assist the BDO in the discharge of his functions as PO. No administrative assistant was appointed in the blocks for maintenance of records.

The Scheme has been introduced in the State in an *ad hoc* manner with inadequate infrastructure and manpower and there was absence of direction both at State and field levels.

1.8.1 State Finance Commission Recommendations

The Fourth Assam State Finance Commission (FASFC) in its preliminary report for the period 2012-13 to 2015-16 made recommendations relating to devolution, State Taxes, grants-in-aid to the LBs, maintenance of accounts of LBs, preparation of Annual as well as Monthly accounts by the LBs as recommended by the Ministry of Panchayati Raj and Ministry of Urban Development, Government of India and streamlining of budgetary procedure with a Local Body supplement in the budget documents and Finance Accounts. These recommendations were accepted by the State Government (July 2011) but were yet to be implemented (February 2012).

1.8.2 Constitution of Audit Commission for local governments

In the Resolution of the sixth Round Table of Panchayat Ministers at Guwahati in November 2004, it was resolved that the State Government would set up an Audit Commission for local Governments, for strengthening accounting and auditing functions including Social Audit at Panchayat level. The same was yet to be set up (July 2011). Consequently, the auditing and accounting functions remained to be strengthened at Panchayat level.

1.9 Decentralized Planning

1.9.1 Status of transfer of Fund, Functions and Functionaries

The AP Act envisaged transfer of functions of various departments of the State Government to LBs to meet the requirement of the areas of their jurisdiction and prepare and implement schemes relating thereto for economic development and realization of social justice. This exercise was done through 'Activity Mapping' drawn up by the State Government in June 2007 indicating devolution of powers to PRIs for 23 out of 29 functions included in the XI Schedule of the Constitution. More significantly, it had made provision in the State Budget w.e.f 2008-09 to provide Plan and Non- Plan fund to the LBs through a new budget line. However, the State Government had decided to actually operate this budget line for the LBs only after the Line Departments transferred the relevant posts to the PRIs, which had not yet taken place (February 2012). It has been reported in Economic Survey, Assam, 2010-11, that the devolution exercise was not yet started as per Activity Mapping other than the schemes executed through Panchayat and

Rural Development Department. It was apparent that the Line Departments did not transfer staff to PRIs, and funds were also not transferred to PRIs.

The Principal Secretary, Urban Development Department (UDD) stated (March 2010) that the matter of devolution was under process. Only 8 of 18 functions listed in the Twelfth Schedule for transfer to ULBs, were actually transferred but State Government had not transferred the required functionaries to ULBs to carry out these functions.

The State Government amended (May 2011) the AM Act 1956, which provided for transfer of fund, functions and functionaries to ULBs and constitution of a committee under the Chairmanship of Minister in charge, Urban Development Department to monitor the matter for early and smooth transfer of fund, functions and functionaries. However, effective steps still remained to be taken by the State Government for expediting transfer of 3Fs¹ to ULBs (February 2012).

1.9.2 Ranking of the state in Devolution Index (DI)

The Indian Institute of Public administration (IIPA), New Delhi has been conducting an independent study on devolution to PRIs in different states. These studies assess Devolution Index (DI) of major states based on different indicators relating to transfer of fund functions and functionaries (3Fs). DI is used for Panchayat Empowerment and Accountability Incentive Scheme (PEAIS) of Government of India for rewarding States with high DI.

Devolution status of Assam against certain devolution parameters as in 2009-10 and 2010-11 as per reports of IIPA is given in **Table 1.4**.

Table 1.4: Devolution status against certain devolution parameters

Year	D ₁ Framework	D ₂ functions	D ₃ Finances	D ₄ Functionaries	Devolution Index	Rank	No of States /UTs studied
2009-10	63.70	23.08	26.56	12.67	28.31	21	23
2010-11	38.35	29.20	33.51	0.00	31.08	18	24

Source: MOPR-IIPA (2011)

Assam is still lying in the bottom half of the DI amongst all States though it had marginally improved its position from 21st in 2009-10 to 18th in 2010-11.

¹ 3Fs: Fund, Functions and Functionaries.

The rank of 18 out of 24 states during 2010-11 indicated that efforts of the State Government in strengthening Panchayats in the State through devolution of 3Fs were not encouraging enough and Panchayats required to be strengthened further in terms of their capacity, autonomy, accountability and achievements.

1.9.3 Merger of all parallel bodies with ZP

Joint statement of conclusion on devolution to Panchayat, Assam arrived at between the Chief Minister of Assam and Union Minister of Panchayati Raj and Youth Affairs & Sports {Sl No.21 (v)} on 12 September 2006 with respect to the subjects devolved to the Panchayats, enjoined that steps would be taken to merge all parallel bodies including District Rural Development Agencies (DRDAs) with Zilla Parishads (ZPs) by January 1, 2007 so that the Panchayats acquire an appropriate instrumentality for planning. However, DRDAs were yet to be merged with ZPs which made preparation of appropriate and holistic district planning, not possible.

1.10 Financial Profile of PRIs

1.10.1 Fund flow to PRIs

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

Table 1.5: Fund flow mechanism in each tier of PRI

Nature of Fund	ZPs		APs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Assessees and users	Bank	Assessees and users	Bank	Assessees and users	Bank
SFC	State Government	do	State Government	do	State Government	do
CFC	GOI ²	do	GOI	do	GOI	do
State plan Schemes	State Government	do	State Government	do	State Government	do
Centrally Sponsored Schemes	GOI & State Government	do	GOI & State Government	do	GOI & State Government	do

² GOI:- Government of India

Fund flow arrangements of CFC grants and Centrally Sponsored (CS) Schemes are given in **Table 1.6**.

Table 1.6: Fund flow arrangements of CFC grants and CS schemes to PRIs

Sl. No	Scheme	Fund flow
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	Central share is released direct to the DRDAs. State share provided in the Budget is released to DRDAs through Department of Panchayat and Rural Development. DRDAs disburse the fund (Central and State share together) to APs, which in turn, disburse the share of GPs under their jurisdiction.
2	Indira Awas Yojana (IAY)	Central share is released direct to DRDAs. State share provided in the Budget is released to DRDAs through Panchayat and Rural Development Department. DRDA disburses the fund (Central and State share together) to APs under its jurisdiction.
3	Swarna Jayanti Swarozgar Yojana (SGSY)	Central share is released direct to the DRDAs. State share provided in the Budget is released to DRDAs through Panchayat and Rural Development Department. DRDAs disburses the fund (Central and State share together) to APs under its jurisdiction.
4	Central Finance Commission Grant (CFC)	Government of India transfers the fund to the State, which is released through budget allocation to the Zilla Parishads. The ZP after drawal of the fund through treasury, disburses the share to APs and GPs under its jurisdiction.
5	Backward Region Grant Fund (BRGF)	Government of India transfers the fund to the State which is released through budget allocation to the ZPs which after drawal of fund through treasury, disburse the share to APs & GPs under their jurisdiction.

Source: Scheme guidelines

1.10.2 Resources: Trends and Composition

The trend of resources of PRIs for the period 2005-06 to 2010-11 is shown in **Table 1.7**.

Table 1.7: Time series data on PRI resources

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Own Revenue	12.30	16.00	13.90	17.03	21.80
SFC transfers	Nil	Nil	48.60	295.68	119.36
CFC transfers (TFC)	50.04	55.17	52.60	152.71	73.44
Grants for State sponsored schemes	190.76	166.14	207.82	123.69	341.86
GOI grants for Centrally sponsored schemes	2198.10	1382.50	1184.95	1712.18	1684.81
Total	2451.20	1619.81	1507.87	2301.29	2241.27

Source: 2006-07 to 2008-09: Commissioner P&RD, Assam, 2009-10 & 2010-11. Appropriation & Finance Accounts.

Sharp decline in receipts under centrally sponsored schemes in 2007-08 in comparison to the previous year was mainly due to deduction of central share for less utilization of funds in previous years by PRIs.

1.10.3 Public investment in social sector and rural development

Details of public investment in social sector and rural development through major Centrally Sponsored Schemes during 2006-07 to 2010-11 are given in **Table 1.8**.

Table 1.8: Statement showing investment through major centrally sponsored schemes

(₹in crore)					
Sl. No.	Schemes	Year	Fund Released	Expenditure	Percentage of shortfall in utilisation
1.	MNREGA	2006-07	357.57	269.04	25
		2007-08	570.84	320.77	44
		2008-09	718.07	455.19	37
		2009-10	785.84	632.47	20
		2010-11	807.60	592.34	27
2.	IAY	2006-07	212.58	207.06	3
		2007-08	276.66	290.09	5
		2008-09	1996.39	627.04	69
		2009-10	635.34	470.51	26
		2010-11	806.96	682.29	15
3.	PMGSY	2006-07	889.35	691.15	22
		2007-08	155.00	261.20	41
		2008-09	9.82	10.07	2
		2009-10	900.00	931.69	4
		2010-11	364.81	NA	-
4.	SGSY	2006-07	98.41	55.15	44
		2007-08	130.81	104.58	20
		2008-09	226.25	174.97	33
		2009-10	139.83	97.72	30
		2010-11	216.34	189.46	88
5.	BRGF	2006-07	NA	NA	-
		2007-08	59.98	59.98	-
		2008-09	41.06	NIL	100
		2009-10	59.41	57.78	3
		2010-11	57.70	51.42	11
6	NSAP ³	2006-07	NA	NA	-
		2007-08	NA	NA	-
		2008-09	NA	NA	-
		2009-10	151.99	NA	-
		2010-11	102.94	NA	-

Source: Sl. No. 1-4: MORD Annual Reports 2006-07 and 2010-11, Sl. No. 5: Govt. of Assam, P&RD Deptt.

³ National Social Assistance Programme

There was considerable increase in investment in social sector schemes like MGNREGS and IAY in 2010-11. However, utilization of the funds under MGNREGS had shown a marginal decline in 2010-11 in comparison to the previous year due to receipt of funds at the fag end of financial year from PD, DRDA as was noticed in test checked units.

1.10.4 Revenue resources of PRIs

Revenue resources of PRIs which are known as own fund, are earned from settlement of hat/ghat, fisheries etc. The details of own fund of PRIs in the State were not collected and consolidated by the Government. Hence, the details of own fund collection of all LBs were not available. However, based on information available from State SFC reports, own resources of 2407 PRIs in the state for the years 2006-07 to 2010-11, ranged between ₹12.30 crore and ₹21.80 crore, only, which was not adequate even for meeting obligatory expenses on remuneration and sitting allowance of members. Based on number of sittings per year including remuneration of Panchayat members, as per existing rate, the TASFC⁴ worked out a requirement of ₹16.57 crore (remuneration ₹13.42 crore and sitting allowance ₹3.15 crore) per year from own resources of PRIs.

It is apparent that the actual receipt or generation of own fund is inconsequential even to meet the payment of remuneration and sitting allowance and there is a little scope for meeting any other exigencies. Thus, PRIs at all levels require to be proactive in augmentation and mobilization of internal revenues by working out periodical action plans after identifying the potential areas.

1.11 Financial profile of ULBs

The ULB fund comprises receipts from its own sources, grants and assistance from Government and loans obtained from any public financial institutions or nationalized banks or any other institution. Details of source of fund, its custody and reporting for each tier are given in **Table 1.9**. The authorities for reporting and use of fund in respect of MBs and TCs are Chairman and the Commissioner in respect of GMC, respectively.

⁴ Third Assam State Finance Commission

Table 1.9: Fund flow mechanism in ULBs

Nature of Fund	ZPs		APs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Assesseees and users	Bank	Assesseees and users	Bank	Assesseees and users	Bank
SFC	State Government	do	State Government	do	State Government	do
CFC	GOI	do	GOI	do	GOI	do
State Sponsored Scheme	State Government	do	State Government	do	State Government	do
Centrally Sponsored Scheme	GOI	do	GOI	do	GOI	do

Details of fund flow arrangements in Central Finance Commission (CFC) Grants and Centrally Sponsored Schemes (CSS) are given in the **Table 1.10**.

Table 1.10: Fund flow arrangements of CFC Grants and CSS to ULBs

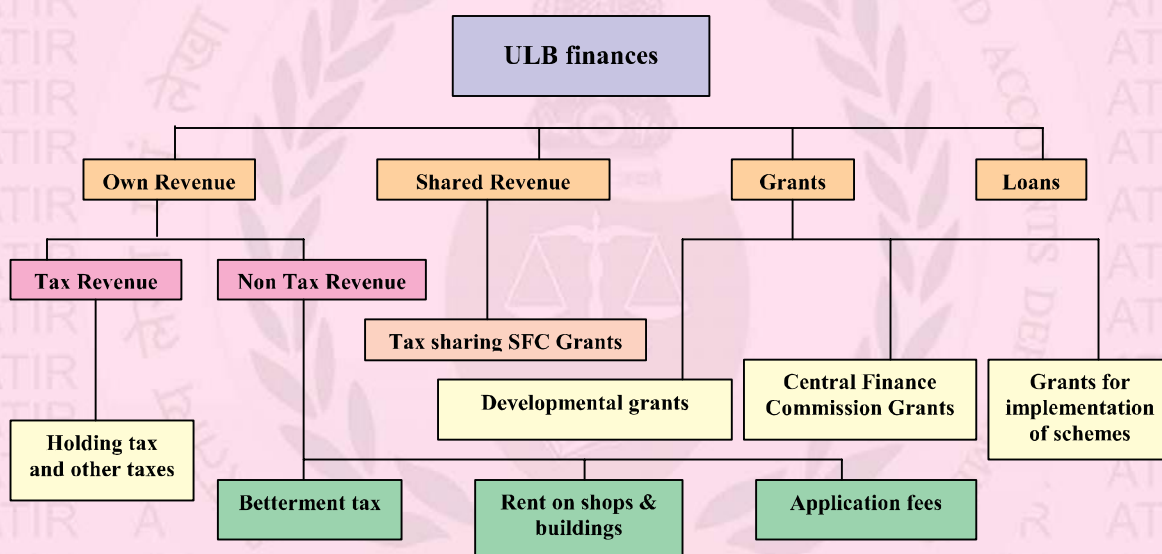
Sl. No	Scheme	Fund flow
(1)	(2)	(3)
1	Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	Central share is released to the Urban Development Department, which is the State Urban Development Agency (SUDA). State share provided in the Budget is released to the Director Municipal Administration who disburses the funds (Central and State share together) to the implementing PRIs.
2	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	Central share is released to the SUDA. The State Share provided in the budget is also released to the SUDA which disburses the fund to Guwahati Municipal Corporation (GMC) through Guwahati Metropolitan Development Authority (GMDA).
3	Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)	Central share is released to the Urban Development Department (UDD) through the State Government. State share provided in the Budget is also released to UDD which disburses the funds to the ULBs through Director Town and Country Planning.
4	Basic Service to Urban Poors (BSUP)	Central share is released to UDD and Guwahati Development Department (GDD) through State Government. State share provided in the Budget is also released to UDD/GDD which disburses the funds to implementing ULBs through Director Town and Country Planning while GDD disburses the fund to GMC through GMDA.
5	Central Finance Commission Grants (CFCs)	Government of India transfers the fund to the State which is released through budget allocation to the Deputy Commissioner of the District. The DC after drawal of the fund from treasury disburses the same to MBs under its jurisdiction.
6	Backward Region Grant Fund (BRGF)	Government of India transfers the fund to the State which is released through budget allocation to the Zilla Parishad. which after drawal of the fund from treasury, disburses it to MBs within the district.

Source: Scheme guidelines

1.11.1 Source of Revenue

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

A flow chart of finances of an ULB is given below:



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

1.11.2 Allocation and release of funds

The State Government allocated ₹120.92 crore under Grants in aid, schemes, CFC grants etc., through budget provisions during 2010-11 to ULBs. However, against the budget provision, the Director of Municipal Administration (DMA), Assam, received ₹85.81 crore and the fund released to ULBs was ₹51.19 crore only, i.e 59.65 *per cent* of the fund received by the DMA. Details of budget provision and funds released to ULBs are shown in **Table 1.11**.

Table 1.11: Statement showing budget provision and funds released to ULBs

(₹ in lakh)

Sl. No.	Name of scheme	Year	Nature of grant	Budget Provision	Funds actually released to DMA	Funds actually released to ULBs
1	Urban Development Fund	2010-11	Non Plan	2500.00	2500.00	1099.50
2	General Purpose Grant	2010-11	Non Plan	5.00	5.00	5.00
3	SCCP ⁵	2010-11		225.00	225.00	225.00
4	ABY ⁶	2010-11	-	200.00	200.00	156.78
5	Grants in aid	2010-11	-	1000.00	1000.00	1000.00
6	SJSRY ⁷	2010-11	Central Share	5400.00	2869.96	1069.90
			State Share	820.71	820.71	602.28
7	CM's Special Programme	2010-11	-	140.00	140.00	140.00
8	13 th FC Grant	2010-11	-	1741.23	794.32	794.32
9	Interest for delayed payment of 13 th FC Grant	2010-11	-	60.00	26.22	26.22
Total				12091.94	8581.21	5119.00

Source: Information furnished by Directorate of Municipal Administration

Against ₹85.81 crore available for utilization during 2010-11, the actual release of funds to ULBs was ₹51.19 crore. Reasons for short release were not intimated though called for and were not ascertainable from the records produced to audit. Unutilized balances amounting to ₹34.62 crore were kept in the bank accounts of DMA as of 31 March 2011.

⁵ Special Component Plan for Schedule Caste

⁶ Assam Bikash Yojana

⁷ Swarna Jayanti Shahari Rozgar Yojana

Conditions attached to a grant provided that under no circumstances fund earmarked for one sector be diverted to another. However, there was no mechanism available in Government to ensure that fund earmarked for a particular sector were not diverted to another sector. Details of expenditure under each sector were thus not ascertainable from DMA's accounts.

1.11.3 Short release of fund under CSS to ULBs

Details of the amount provided in the budget of the State Government, the amount received and released to ULBs during 2010-11 as per information furnished by the Director, T&CP are given in **Table 1.12:**

Table 1.12: Status of funds for CS Schemes.

(₹ in lakh)							
Sl. No.	Name of scheme	Share of Grant	Budget allocation	Amount received	Amount Released to ULBs	Closing Balance	Progressive closing balance
1	IDSMT ⁸	State Share	5.00	5.00	Nil	5.00	5.00
		Central Share	7.50	Nil	Nil		
2	IHSDP ⁹	State Share	400.00	250.00	Nil	1040.89	1040.98
		Central Share	833.30	790.89	Nil		
3	UIDSSMT ¹⁰	State Share	400.00	350.00	Nil	350.00	350.00
		Central Share	1000.00	Nil	Nil		
4	10 <i>per cent</i> Pool Fund	State Share	500.00	280.00	Nil	415.74	1327.00
		Central Share	135.74	135.74	Nil		
5	Night Shelter for Urban Slum	State Share	15.00	15.00	Nil	15.00	15.00
		Central Share	15.00	Nil			
Total			3311.54	1826.63	Nil	1826.63	2737.98

Source: Information furnished by the Director, T&CP

Against the budget provision of ₹33.12 crore, the Director, T&CP received ₹18.27 crore in 2010-11 for projects formulated by ULBs under the above mentioned schemes. No funds were, however, released to ULBs thereby adversely affecting the implementation of the schemes. An amount of ₹27.38 crore was retained by the Director T&CP Assam, in

⁸ Integrated Development of Small and Medium Towns.

⁹ Integrated Housing and Slum Development Programme.

¹⁰ Urban Infrastructure Development Scheme for Small and Medium Towns

Bank Account without utilisation. Reasons for non release of funds have not been intimated, though called for (July 2011).

1.12 Twelfth Finance Commission Grant (TFC)

The State was entitled to 10 half yearly installments of TFC grant ₹581.00 crore (₹526.00 crore for PRIs and ₹55.00 crore for ULBs) for a period of 5 years from 2005-06 to 2009-10. The State Government has so far availed only seven installments amounting to ₹406.70 crore (₹368.20 crore for PRIs and ₹38.50 crore for ULBs). MoPR, Government of India cautioned (27 September, 2008) the State Government that the unavailed grants would lapse by 31 March 2010 and asked the States to speed up utilization of grants and submission of UCs to the Ministry of Finance. As the State Government could not speed up utilization of grants released to PRIs/ULBs and delayed submission of UCs, the subsequent three installments for ₹174.30 crore (₹157.80 crore for PRIs and ₹16.50 crore for ULBs) were not released by GOI, resulting in lapse of ₹174.30 crore out of total allocation of ₹581.00 crore under TFC grants.

1.13 Database on LB Finances

Based on recommendation of the Eleventh Finance Commission (EFC), Comptroller and Auditor General of India prescribed database formats for capturing the finances of all PRIs. The database formats were prescribed with a view to having a consolidated position of the sector-wise resources and application of funds by PRIs, details of works executed by LBs and their physical progress etc. Though, the State Government accepted (August 2004) the formats so prescribed, the development of database had not yet started (February 2012). Joint Director P&RDD stated (July 2011) that in the first phase all Zilla Parishads (ZPs) and Anchalik Panchayats (APs) were computerized, but due to some administrative reasons some delay occurred in implementing the second phase of works i.e. computerization at Gaon Panchayat (GP) level. Thus, complete data on finances in consolidated form covering all PRIs is not available. Further, though the State Government had accepted the recommendation of State Finance Commission (SFC), highlighting the need for building up database in respect of municipal finances, no tangible progress was made (February 2012).

1.14 Accountability Framework

1.14.1 Power of State Government over PRIs and ULBs

The Constitution of India empowers States to legislate on Panchayats and Municipalities. Further, in exercise of relevant Acts and Rules, the State Government exercises its powers in relation to PRIs and ULBs. Details of the powers of the State Government over the LBs in decentralized setup are given in **Table 1.13**.

Table 1.13: Power of State Government over LBs

Act/Rule/Authority (1)	Power exercised by Government (2)
Section 141 of AP Act, Section 301 of AM Act and Section 426 of GMC Act	Power to frame rules The State Government may make rules for carrying out the aims and objectives of this Act.
Section 125 of AP Act, Section 298 of AM Act and Section 425 of GMC Act	Power to dissolve PRIs and ULBs Government may, by notification in Gazette, dissolve the PRIs and ULBs if the Government is of the opinion that the Local Body exceeds or abuses its powers or is not competent to perform or make persistent default in the performance of the duties imposed on it under this Act or any other law, for the time being in force.
Section 124 of AP Act, Section 293 of AM Act and Section 424 of GMC Act	Powers to revoke or suspend resolution of PRIs and ULBs The Zilla Parishad is empowered to suspend and prohibit an order or resolution of Gaon Panchayat if the Zilla Parishad is of the opinion that the resolution is improper, cause or likely to injury or annoyance to the public or lead to a breach of peace.
	The State Government may by an order in writing suspend and prohibit an order or a resolution of a ULB if the resolution is improper, cause or likely to injury or annoyance to the public or lead to a breach of peace.
Section 123 of AP Act	Power to restrict or withdraw functions from Panchayats A Government may, by notification in the official gazette amend or add any activity, programme or scheme vested in the Panchayat.
Section 121 (1) of AP Act	Power to conduct enquiry The Government may, at any time for reasons to be recorded, cause an enquiry to be made by any of its officers in regard to any GP, AP or ZP on matter concerning it, on any matters with respect to which the sanctions, approval, consent or orders of the Government is required under this Act.
Section 140 of AP Act read with Rule 4 and 8 of AP (Administrative) Rules	Power of appointment, cadre control, transfer etc. The employees of the PRIs are Government Servants. The Government shall regulate the classification, method of recruitment, conditions of service, pay and allowances, discipline and conduct of Secretaries of the GPs.
	The State Government may post from time to time additional staff of Grade I, Grade II, Grade III and Grade IV to ZP or AP or GP as it deemed necessary.
Section 122 of AP Act	Power to issue guidelines The State Government is empowered to issue directions to any Panchayat in matters relating to State and National Policies and such direction shall be binding on the Panchayat. The State Government may call for any record or register or other document in possession or under the control of any Panchayat.

The Assam Panchayat Act gives the State Government the following powers for ensuring proper functioning of PRIs:

- call for any Panchayat to furnish information or report, plan, estimate, statement, accounts or statistics;

- inspect any office or any record or any document of PRIs;
- inspect the works and development schemes implemented by PRIs; and
- take action for default of Panchayat President/Secretary.

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

Lapses/defects noticed in audit relating to formulation and implementation of schemes, matters relating to finance, etc., are mentioned in Chapters II and III of this Report.

1.15 Vigilance mechanism

1.15.1 Ombudsman

The ombudsman conducts investigation and enquires into instances of maladministration, corruption, favoritism, nepotism, lack of integrity, excessive action, inaction, abuse of position etc, on the part of officials and elected representatives of LBs. He can even register cases, *suo moto*, if the instances of the above kind come to his notice. The State Government under the Chairpersonship of the then Chief Secretary, Assam constituted a committee (August 2010) for selection of Ombudsman and Deputy Ombudsman under MGNREGA. The State Government in November 2011 selected 10 Ombudsmen and 2 Deputy Ombudsmen in 12 out of 27 districts in the State under section 27 (1) of the MGNREG Act, 2005

There was, however, no provision in the AP Act and AM Act regarding setting up of ombudsman for LBs.

1.15.2 Social Audit

The primary objective of social audit is to bring the activities of LBs under close surveillance of public for which the later needed to have access to records and documents of LBs. Such immediate access to information would facilitate transparency and accountability in day-to-day functioning of LBs. The State Finance Department issued guidelines (May 2009) for social audit which, *inter alia*, included the following:

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

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

Except a provision made under the Assam Rural Employment Guarantee (AREG) Scheme in respect of schemes under MGNREGA, the State Government was yet to amend the relevant Panchayat and Municipal Acts by including a statutory provision for social auditing.

1.15.3 Lokayukta

The Assam Lokayukta and Upalokayukta Act 1985 (Assam Act No. XX of 1986) came into effect in the State from December 12, 1986 for the purpose of conducting investigation into grievances and allegation against ministers, legislators and other public servants including those of PRIs and ULBs. However, the Lokayukta in Assam has not been authorized to register a case *suo moto* as in some other states in the country.

The institution of Lokayukta was established in 1989 in the state. At present the institution is headed by the Upalokayukta, while the post of Lokayukta has been lying vacant for the last 16 years (since March 1995). The Upalokayukta had received a total of 1018 complaints till December 31, 2011. The Assam Upalokayukta has recently submitted a proposal to the State Government for setting up Lokayukta cells in every district and Sub-divisional headquarters, to create awareness about the ombudsman. (Source: *The Telegraph*, dated 9 April 2012 & rightspeaks.blogspot.in/2011/04/pathetic-plight-of-assam-lokayukta.html).

There is a need to increase awareness among and periodic information to the people about the existence and functioning of the anti-corruption mechanism to make it effective and useful to the public and the Lokayukta should be empowered to register the cases *suo moto* to strengthen the institution.

1.16 Audit Mandate

1.16.1 Primary Auditor

The Director of Audit, Local Fund (DALF), Assam, established under Assam Local Funds (Accounts & Audit) Act, 1930 conducts audit of the accounts of any local authority

such as universities, colleges, schools, religious and charitable institutions etc., including PRIs and ULBs in the State. Though fund flow to PRIs increased immensely in the last 10 years at the instance of Central and State FCs and through CSS and State schemes, audit activity of DALF did not increase in proportion to the increasing fund flow. The State Government also had not made any provision in the relevant AP Act making DALF, the primary external auditor of PRIs. However, the State Government, through concerned departmental orders issued in December 2009 and January 2010, designated DALF as the primary auditor to conduct audit of accounts of ULBs and PRIs respectively.

1.16.2 Organizational Set up of DALF

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

1.16.3 Staff strength of DALF

Details of sanctioned strength and 'persons in position' in the organization during 2010-11 are shown in **Table 1.14**.

Table 1.14: Sanctioned strength and persons in position in DALF

Sl. No.	Post	Sanctioned	Persons in position	Vacant	Percentage of vacancy
1	Director	1	1	-	Nil
2	Joint Director	2	2	-	Nil
3	Deputy Director	3	3	-	Nil
4	Registrar	1	1	-	Nil
5	Assistant Director	23	23	-	-
5	Audit Officers	159	71	88	55
6	Assistant Audit Officers	220	119	101	45
7	Other ancillary staff	264	229	35	13
Overall		673	449	224	33

The organization is functioning with an overall 33 *per cent* shortage of personnel whereas shortage in the cadre of Audit Officers was 55 *per cent* and Assistant Audit Officers 45 *per cent*, which adversely affected the mandated functions of the organization as discussed in part B of this chapter.

1.16.4 Training of DALF Staff

A training for trainers on maintenance of accounts of PRIs was organized by the office of the Senior Deputy Accountant General, (Local Bodies Audit & Accounts), Assam during July 2005 for the officials of PRIs, wherein staff of DALF, Assam also participated as trainees. Two training programmes in December 2010 and February 2011 were organized by Assam Administrative Staff College and one Orientation programme was also organized by DALF in November 2011, wherein, Audit Officers of DALF were provided training by officers of the office of the Senior Deputy Accountant General, (Local Bodies Audit & Accounts), Assam for the capacity building of Audit Officers of DALF.

1.16.5 Audit by C&AG of India

C&AG of India conducts audit of substantially financed local bodies under section 14 (1) of C&AG (DPC) Act 1971 and audit of specific grants to local bodies under section 15 of the Act *ibid*, in the office of sanctioning authority. The audit of PRIs and ULBs is also conducted by C&AG under section 20 (1) of the Act as per Technical Guidance and Support (TGS) module as entrusted to C&AG in May 2002 followed by acceptance of standard terms and conditions of TGS (May 2011) by the State Government in pursuant to the 13th Finance Commission recommendations.

Audit of accounts of 42 PRIs (3 ZPs, 13 APs and 26 GPs), 5 ULBs, (three Municipal Boards and 2 Town Committees) for the year 2010-11 were conducted during January 2011 to June 2011 detailed in **Appendix 1.2**.

In selection of units for audit, the following mixed criteria were applied:

- Units due for audit.
- District in backward area.
- GPs under APs and APs under ZPs on relatively higher population, location and their connectivity's.
- Few units at random basis.

1.17 Conclusion

- Functioning of District Planning Committees (DPCs) needed to be improved and strengthened by preparing consolidated and integrated development plans of districts.
- The State is lagging behind in actual devolution of 3Fs viz. Fund, Functions and Functionaries to PRIs and ULBs.

SECTION 'B'

FINANCIAL REPORTING

1.18 Legal framework

Transparent and timely financial reporting in LBs is an essential prerequisite for ensuring accountability. Matters relating to drawal of fund, form of bills, incurring of expenditure and maintenance of primary financial records are governed by the provisions of the AP Act, AP (F) Rules, AM Act, GMC Act and AM (Accounts) Rules and other departmental standing orders and instructions.

The PRIs maintain accounts on cash basis. Receipts and payments are required to be incorporated in the accounts in order to make the accounts complete and accurate.

The AP Act and AP (F) Rules, however, did not contain any provision for preparation and rendering of Annual Accounts by PRIs.

1.18.1 Deficiencies in maintenance of primary financial records

Regular maintenance of Cash Book, daily closing of Cash Book after due attestation by the authorised officer, preparation of Properties and Asset Register, Register of Assessment and Collection of Taxes etc., are some of the controls in the matter of accounting. An effective internal control system gears up the supervisory organisation and helps it to insulate itself from financial irregularities and instances of fraud.

Deficiencies noticed in the maintenance of primary financial records of PRIs during 2010-11 are detailed below:

a. Improper maintenance of records

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

- Test check Cash Book of 29 PRIs for the period ranging from 2002-03 to 2010-11 revealed that there were more than one Cash Book which were not closed daily

or monthly, analysis of closing balance and physical verification of cash was also not done.

- In addition to the operation of multiple Cash Books, funds received under different schemes/ activities were parked in a number of bank accounts for each scheme. Cash Book balances were not reconciled with bank balances in any PRI. Instances of un-reconciled balances with differences ranging from ₹0.15 lakh to ₹6.91 crore in 5 PRIs as on March 2011 are indicated in **Appendix 1.3**.
- There were short/non accountal of receipts and short receipts of ₹18.62 lakh in six PRIs as shown in **Appendix 1.4**.
- None of the PRIs furnished certificate to Audit declaring the total number of bank accounts maintained. Audit could not, thus, ascertain the correctness of the bank transactions recorded in the Cash Book.

Not only did the above indicate that PRIs needed to do a lot in the above specific critical areas but also indicated failure of the DDOs of the PRIs to adhere to the provisions of financial rules to ensure proper maintenance of Cash Book and subsidiary records. Possibility of fraud and embezzlement of money could not, therefore, be ruled out.

b. Register of Advances

PRIs granted various advances to the members and officials. Advances were also granted to the departmental officials, construction committees, suppliers etc., for execution of works/ supplies etc. However, none of the 42 PRIs, test checked in audit during 2010-11, maintained Advance Registers for accountal of advances and watching recovery/ adjustments thereof. Instances of advances remaining outstanding in 3 PRIs amounting to ₹27.96 lakh are indicated in **Appendix 1.5**.

The Assam Panchayat (Financial) Rules, 2002 {AP (F) Rules} neither provided for maintenance of 'Advance Register' nor prescribed any mechanism for recovery/adjustments of advances. In the absence of any provision in the Rules, Advance Registers were stated to have not been maintained. PRIs, thus, failed to watch recovery/ adjustment of advances and accordingly, treated the amounts of advances as final expenditure, which is fraught with the risk of possible fraud/embezzlement.

c. Asset Register

- Rule 19 of AP (F) Rules, 2002 provide for maintenance of a register of Properties and Assets in 'Form 6' for all three tiers of PRIs which should contain a list of land & buildings and all items of furniture and equipment. However, except an Asset Register maintained by GPs in respect of assets created under MGNREGS, none of the 42 PRIs test checked in audit during 2010-11, maintained any register of Properties and Assets in the prescribed format. Further, Asset Registers in respect of assets created under MGNREGS were not updated regularly.
- Annual physical verification of movable and immovable properties was not done in any PRI.

d. Register of Assessment and Collection of Taxes etc

Any fee and cess imposed under the Assam Panchayat Act, 1994 should be recorded in the Register of Assessment and Collection of Taxes etc., to be maintained under Rule 45 of AP (F) Rules, 2002. The register should contain the details of taxes against an assessee including arrears if any, taxes collected during the year and amount outstanding at the end of the year. However, the register was not maintained by any of the 42 PRIs test checked in audit.

e. Cheque issue Register

A subsidiary register called 'Cheque Issue Register' records the details of withdrawals relating to each bank account and helps in ascertaining the balance in the account after each transaction. Reconciliation of balance shown in each 'Cheque Issue Register' with the balance shown in respective pass book/statement at the end of each month is an effective mechanism to ensure the correctness of entries in the above records as well as detection of malpractices, if any, without delay. None of the test checked PRIs maintained Cheque Issue Register in proper format recording details of withdrawals in respect of each bank account maintained by them. Irregular maintenance of Cheque Issue Register and subsequent non preparation of monthly reconciliation statements were lapses on the part of PRIs and the possibility of misappropriation remaining unnoticed could not be ruled out.

1.19 Annual Accounts and Budgetary control

1.19.1 Non preparation of Annual Accounts

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

Assam Municipal (Account Rules) 1961 framed under Assam Municipal Act 1956, provides for maintenance of accounts of municipalities on cash basis and did not prescribe formats for preparation of annual accounts by ULBs. The State Government, in the line of National Municipal Accounting Manual (NMAM), prepared the draft State Municipal Accounting Manual (SMAM) in July 2010 which is based on accrual based accounting system and amended the AM Act, 1956 in May 2011, to provide for maintenance of accounts on accrual basis and preparation of Receipt and Payment Account, Income and Expenditure Account and the Balance Sheet.

However, the accounts of ULBs continued to be maintained on cash basis due to late amendment of the AM Act and thereby true and fair view of financial affairs of ULBs and their assets and liabilities were not disclosed.

1.20 Budget

1.20.1 Budget estimates of PRIs

Budget is the most important tool for financial planning, ensuring accountability and control over performance. Sections 27, 59 and 96 of Assam Panchayat Act, 1994, laying down that the Budget proposals containing detailed estimates of Income and Expenditure expected during the ensuing year were to be prepared by the respective Standing Committees after considering the estimates and proposals submitted by the Secretary and the officers dealing with respective subjects. However, 38 PRIs (12 APs and 26 GPs) test checked in audit did not prepare their budgets upto 2010-11 and unauthorisedly incurred expenditure in the absence of budget allocation. While 16 PRIs as detailed in **Appendix 1.6**, incurred unauthorised expenditure of ₹1.92 crore from their own fund, 22 PRIs did not report own fund transactions to audit.

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

1.20.2 Budget estimates and expenditure of ULBs

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

However, 5 test checked ULBs¹¹ did not furnish any records relating to preparation of budget.

1.21 Internal control system at the level of LBs

Internal control mechanism is an integral function of an organization which helps it to govern its activities effectively and achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and Bye-laws. Various internal control measures in financial and operational activities when built into the departmental rules and manuals and their strict adherence, would minimize the risk of errors and irregularities. It is also designed to provide reasonable assurance to the effect that the following general objectives are achieved.

- Fulfilling accountability obligations ;
- Compliance of applicable rules and regulations;
- Implementation of programmes is carried out in an orderly, economical, efficient and effective manner.

1.21.1 Deficiencies in internal control mechanism in LBs

The internal control system at the level of each PRI and ULB has been designed by GOA through Assam Panchayat (AP) Act, 1994, AP (F) Rules, 2002, Assam Municipal Act, 1956, Assam Municipal Accounts Rules, 1961, Guwahati Municipal Corporation Act, 1971 besides application of State Government's own rules and policies relating to finance, budget and personnel matters. Significant provisions of internal control mechanism in PRIs and ULBs are indicated in **Appendix 1.7**.

¹¹ Dibrugarh MB, Lakhimpur MB, Goalpara MB, Howly TC, Tihu TC

In addition to the above following deficiencies also contributed to the weakness in internal control of PRIs and ULBs.

- Expenditure Control Registers to record the details of drawal of funds against allocation were not maintained.
- Periodical report/returns in respect of implementation of various schemes and other activities in the district were not submitted to higher authorities. Thus, monitoring system, essential for ensuring compliance in terms of physical and financial implementation of schemes/programmes, was non-existent.
- There was no record of evaluation, if any, carried out by the Panchayat and Rural Development, and Urban Development Department, Assam to assess the impact of implementation of programme/activities undertaken through different PRIs/ULBs.

1.21.2 Cases of misappropriation/defalcation/losses, etc.

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

1.22 Internal Audit

Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts as well as in the Financial/Accounting Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the LBs. It was found that Internal Audit, which is an integral part of the internal control system of an organisation, had not been introduced.

Rule 18 of Assam Panchayat (Administrative) Rules, 2002 provided for utilisation of internal auditors of Panchayat & Rural Development Department for proper and correct maintenance of accounts of PRIs. Though an internal audit wing with internal auditors was in place in the Commissionerate of P&RD, Assam, no internal audit of PRIs has so far been conducted (February 2012). The department has no Audit Manual of its own and

its main function was limited to assisting the Commissioner, P&RD, Assam in settling the outstanding audit paras and inspection reports relating to departmental units.

There was no provision for internal audit in relevant Municipal Acts and Rules and a system of internal audit does not exist in ULBs. The Director of Municipal Administration, Assam confirmed (March 2011) that the system of internal audit has not been introduced in the municipalities in Assam.

In the absence of Internal Audit periodical inspection of records had never been carried out either at the Commissionerate or at LBs level. This has affected the sense of accountability in the lower formation, besides leaving deficiency in implementation of the schemes undetected.

1.23 Audit of accounts of LBs

1.23.1 Audit coverage by DALF

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

Year-wise position of number of units audited, number of audit reports and arrears in issue of audit reports as intimated by DALF (March 2011) are detailed in **Table 1.15**.

Table 1.15: Arrears in issue of audit reports by DALF

Year	Name of LBs	No. of units planned for	No. of units audited	No. of audit reports issued	Arrears in issue of audit reports at the end of the year
2010-11	PRIs	1297	418	361	57
	ULBs	71	24	9	15

There was shortfall in the number of units audited against the number of units planned for audit during 2010-11. Audit reports were yet to be issued in 72 units that were audited during 2010-11. Reasons for shortfall were attributed by DALF to shortage of staff and engagement of staff for conducting Assembly elections.

1.23.2 Presentation of annual consolidated audit report

As per para 101 (i) of Assam Audit Manual, DALF is required to send an Annual Report to the Finance Department by 30 September each year incorporating major outstanding audit objections relating to LBs which were pending settlement for further action by the Finance Department. However, no consolidated Annual Report had so far been sent to Finance Department. Further, the State Government did not set up any committee for discussion of Annual Report of DALF, which could have imparted a greater sense of urgency to the requirement.

Thus, in the absence of Annual Consolidated Reports, the results of audit conducted by DALF remained unreported without any follow up action thereby weakening the accountability mechanism of PRIs in Government.

1.23.3 Response to Audit Observations

Results of audit of the accounts of PRIs and ULBs, conducted by the office of the Senior Deputy Accountant General (LB Audit & Accounts), Assam, were communicated to the respective units in the form of Inspection Reports (IRs) with copy each to the State Government. PRI and ULB authorities were required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to audit within three months from the date of issue of IRs. Out of 444 PRI units and 89 ULB units to whom Inspection Reports (IRs) were issued, only 129 PRI and 56 ULB units had furnished replies to IRs till the end of September 2011.

The details of IRs and the outstanding paragraphs as of September 2011 are shown in Table 1.16.

Table 1.16: The details of IRs and the outstanding paragraphs

Year of issue	No. of Inspection Reports		No. of outstanding Paras		Money value (₹ in crore)		Total outstanding Paras	Money value (₹ in crore)
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs		
Up to 2006-07	26	47	388	296	34.36	24.54	684	58.90
2007-08	26	12	358	116	62.18	6.39	474	68.57
2008-09	69	23	595	287	65.52	13.21	882	78.73
2009-10	260	13	1402	190	141.85	76.98	1592	218.83
2010-11	69	8	465	102	156.78	66.21	567	222.99
Total	450	103	3208	991	460.69	187.33	4199	648.02

Thus 4199 paragraphs with monetary value of ₹648.02 crore were pending settlement (September 2011) for want of replies from concerned LBs.

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

1.24 Administrative Reports

Section 128, Sub-sections (1) and (2) of the AP Act, 1994, provides for submission of Annual Administrative Report of the preceding year of AP and ZP to the Government by 30 September every year. Report of the ZP together with a memorandum by the Government reviewing the working of the ZP should be laid before the State Legislature as per sub-section (3) of the section *ibid*. However, neither the PRIs prepared their Annual Administrative Reports nor the State Government (P&RDD) called for Annual Administrative Reports from PRIs for consolidation and submission to the State Legislature.

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

1.25 Conclusion

- Financial reporting is not effective and inadequate with no provision in PRI and ULB Acts and Rules for preparation and rendering of annual accounts by Local Bodies. Non preparation of annual accounts resulted in lack of transparency of state of affairs as well as non-disclosure of financial assets and liabilities of Local Bodies. There is no provision for reporting of misappropriation, fraud etc., to the State Government in PRI Acts and Rules,
- Internal control mechanism was weak as evidenced by non-maintenance of Community Assets, Register of Advances and non-furnishing of utilization certificates by LBs and deficiencies in maintenance of primary financial records at

all levels of PRIs and ULBs. There is no provision for internal audit in ULB Acts and Rules. Asset Register was partially maintained. Except the assets created under MGNREGS, details of assets created under schemes implemented by LBs were not maintained. As a result, status of assets created under other flagship schemes could not be assessed.

- Appropriation of fund without preparation of budget led to unauthorized expenditure in PRIs. Preparation of unrealistic budget resulted in over estimation of revenue in PRIs.
- There was poor response and delays in furnishing replies to audit observations leading to accumulation of outstanding audit objections.
- The primary financial records of LBs were deficient.
- No vigilance mechanism such as constitution of Ombudsman for conducting investigation and enquiries into instances of maladministration, corruption etc. was adopted in the AP as well as AM Act.
- Acute shortage of manpower at each level of PRIs hampered the enlarged functional achievement of the objectives of decentralized governance in PRIs.
- Internal control relating to financial management was almost non existent leading to lapse of TFC grant.