

CHAPTER-1

AN OVERVIEW ON THE ACCOUNTS AND FINANCES OF THE PANCHAYTI RAJ INSTITUTIONS

1.1 Introduction

1.1.1 Panchayati Raj Systems (PRS) in Himachal Pradesh has been established in 1954 under the provisions of the Himachal Pradesh Panchayati Raj Act (HPPRA) 1952. In November 1966, the hilly areas of Punjab were merged in this State. In the merged area, a three tier¹ PRS was in existence, whereas two tier² system was prevalent in the old area of the State. With a view to bring uniformity in the PRS of the old and the newly merged areas HPPRA 1968 was enacted in November 1970 and two tier system was established throughout the State and judicial functions were also transferred to Gram Panchayats.

In order to give effect to the 73rd constitutional amendment, revised HPPRA was enacted in 1994 repealing all existing Acts, to establish a three-tier Panchayati Raj Institution (PRI) system in the state. There are 12 Zila Parishads (ZPs), 75 Panchayat Samities (PS) and 3243 Gram Panchayats (GPs) in the state. The representatives for PRIs are elected every five years, the first general election of PRI was held in December, 1995 and last general election was held in December, 2005.

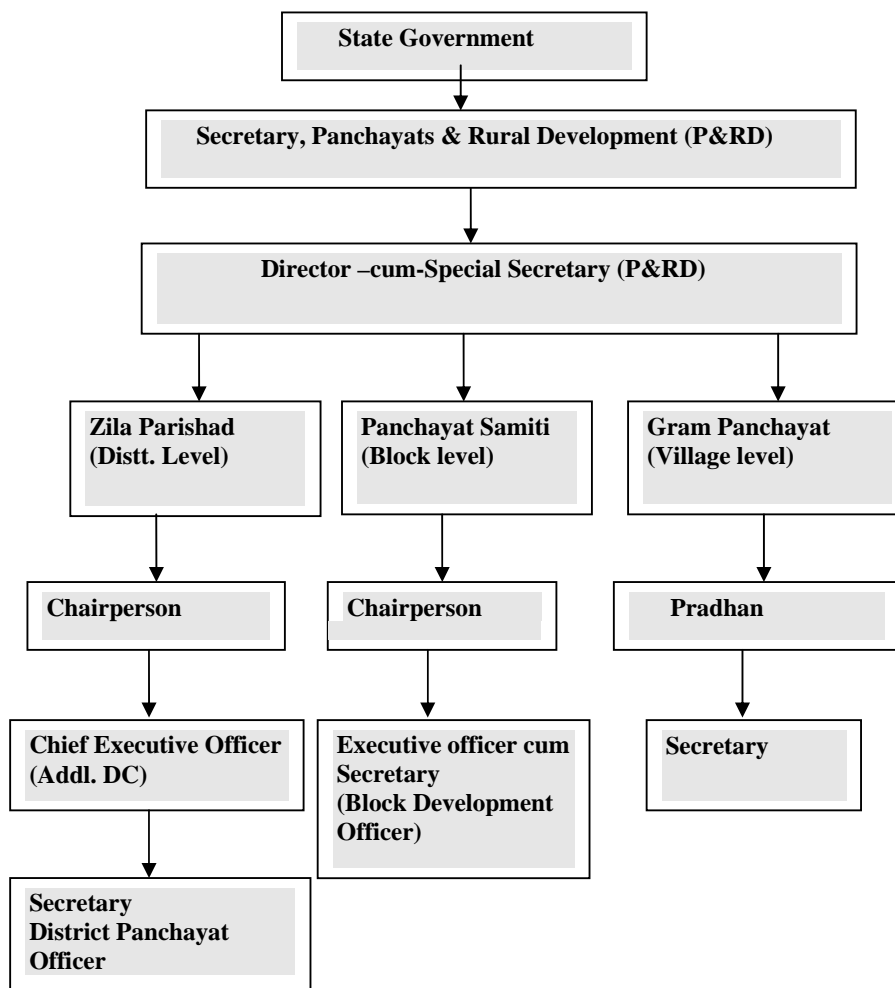
1.1.2 The Eleventh Finance Commission had recommended exercising control and supervision over maintenance of accounts of PRIs and their audit for all three tier by C&AG. Consequently the State Government has entrusted the audit of PRIs to the CAG of India (December, 2003) vide executive order according to which the Accountant General office will be at liberty to conduct audit of such number of PRIs in such manner as it deemed fit. Proper notification in this regard for technical guidance by the C&AG is still awaited from the State Government.

¹ Gram Panchayat, Panchayat Samiti and Zila Parishad.

² Gram Panchayat and Panchayat Samiti.

1.2 Organizational Set up.

The organogram given below depicts the organizational structure of the department and the PRIs at the District, Block and Village level:



The Chairman heads both ZP and PS whereas the Pradhan heads GP.

1.3 Sources of Funds

For execution of various developmental works, the Government of India and State Government, provide funds in the form of grants besides the revenue earned by the PRIs out of their own resources such as house tax, rent from shops/stalls, service fee and fee for issue of fishing licenses, tehbazari³ etc. The

³ Small Khokhas/shops given on rent.

following table shows the budget allotment & expenditure incurred during the last four year ending March, 2007 as under:-

(Rs. In lakh)

Year	Budget Allotment	Revenue expenditure	Capital expenditure	Total Expenditure
2004-05	3569.45	3549.45	20.00	3569.45
2005-06	4770.27	4419.83	350.44	4770.27
2006-07	6889.37	6319.42	569.95	6889.37

The department could not supply consolidated information regarding the own revenue of the PRIs.

1.4 Audit Coverage

Audit of accounts of 6 ZPs (out of 12), 25 PSs (out of 75) and 306 GPs (out of 3243) were conducted during 2007-08 (Appendix-1). The important audit findings are discussed in the succeeding chapters.

1.5 District Planning Committees

As per Article 243-ZD of the Constitution, District Planning Committee (DPCs) are to be constituted by the State Governments so as to consolidate the development plans formulated by the local bodies. It was noticed during test check that the DPCs were constituted in the State, but they are functional only in Chamba and Sirmour districts. Director PRI stated (August 2008) that the process to make DPC functional in remaining districts is in progress. In the absence of non-functioning of the DPCs the District Planning could not be effective.

1.6 Utilisation of Twelfth Finance Commission Grants.

As per the Twelfth Finance Commission (TFC) guidelines, the TFC Grants should be used to improve the service delivery of Panchayats in respect of Water Supply and Sanitation. The Panchayats also needed to be encouraged to take over the water supply assets created under the Sawajaldhara Programme and maintain them with the help of these grants.

The TFC earmarked Rs. 147.00 crore for the PRIs of Himachal Pradesh for the period 2005-2010. According to TFC recommendations it is mandatory for the State Government to transfer the grants released by the Government of India to the PRIs within fifteen days of the amount being credited to the State Accounts.

Details of delayed release of grants by DPO's.

(ii)

(Rs. in lakh)

Sr. No.	Year	No. of installments	Date of drawal by DPOs	Amount	Date of release	Delay (days)
1.	2005-06	1 st Installment	25-03-06	164.31	20-04-06 to 20-06-06	11 to 78
		2 nd Installment	29-03-06 to 20-04-06	<u>175.79</u> 340.10	12-04-06 to 20-08-06	20 to 118

Further scrutiny of the records of six⁴ DPOs revealed that funds of Rs. 340.10 as 1st and 2nd installments were released to ZPs, PSs and GPs during 2005-06 after a delay of 11-118 days. In Sirmour District funds worth Rs. 3.91 lakh as 2nd Installment was received by DPO on 13-04-06 which could not be disbursed to PRIs due to non receipts of letter regarding funds to be released amongst ZPs, PSs & GPs. After receiving the letter from Director Panchayati Raj Rs. 3.91 lakh was released to the concerned PRIs between January 2008 and June 2008.

1.7 Database of PRIs

As per recommendation of EFC a portion of the local bodies grants provided by the Government of India was to be utilised for the development of database on finances of PRIs at District/State level. For this purpose the data was to be collected and compiled in standard formats prescribed by C&AG of India. It was noticed that the Panchayati Raj Department has not adopted the draft formats so far. However, Rs. 7.99 crore has been spent by the department for purchase of articles/materials such as computers, printers, furnitures and LAN cabling etc. for supplying to PRIs. Director, Panchayati Raj stated (August 2008) that the process for fully computerization of all the GPs is in progress and after that database formats shall be adopted.

1.8 Outstanding audit objections

The PRIs are required to comply with the observations contained in the Inspection Reports (IRs) on priority and send their compliance report to get the paras settled. From the position of outstanding paras as on March, 2008 given below it may be seen that no effective steps have been taken by the PRIs to get outstanding paras settled. The details of inspection reports and outstanding paragraphs as on March 2008:-

⁴ Bilaspur, Hamirpur, Kullu, Mandi, Sirmour, and Solan

Sr.No.	Year of issue of Inspection Reports	No. of Inspection Reports	No. of outstanding paragraphs.
1.	2005-06 & 2006-07	195	580
2.	2007-08	337	505

1.9 Internal Audit.

Sub-Section (I) of section 118 of the Himachal Panchayati Raj Act, 1994 provides that there will be a separate and independent Internal Audit Agency under the control of the Director Panchayati Raj to audit the accounts of PRIs with a view to having proper financial control on income and expenditure. The agency is required to conduct audit of all the three tier of PRIs annually. The position of internal audit conducted during the year 2006-07 was as under:-

Name of Institution	Total units	Nos. of units audited	No. of units not audited	Percentage of short fall
1. Zila Parishad	12	12	Nil	Nil
2. Panchayats Samiti	75	49	26	35
3. Gram Panchayats	3037	2704	333	11

From above it may be seen that 26 units of PSs and 333 units of GPs could not be covered by the Internal Audit Agency. The Director Panchayati Raj stated (February, 2008) that the targets for the audit could not be achieved during 2006-07 as the staff remained busy for imparting training to the newly elected representatives of the PRIs.