

CHAPTER-1

ACCOUNTS AND FINANCES OF THE PANCHAYTLRAJ INSTITUTIONS

1. Introduction

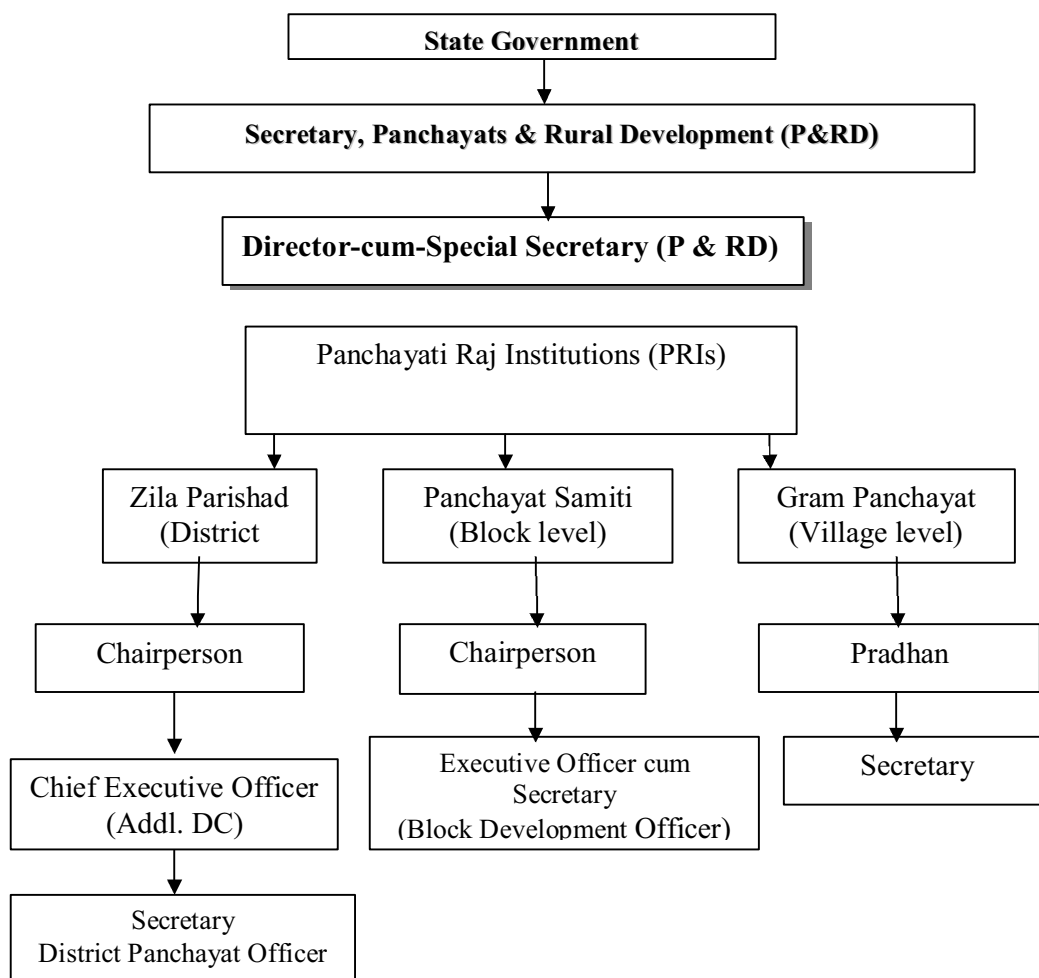
Seventy third Constitutional amendment gave constitutional status to PRIs and established a system of uniform structure, regular elections and regular flow of funds through Finance Commissions etc. As a follow up the states were required to entrust these bodies with such powers, functions and responsibility so as to enable them to function as institutions of self government. In particular, the PRIs were required to prepare plans and implement schemes for economic development and social justice including those included in the Eleventh Schedule of the Constitution.

Post seventy third amendment the State Government enacted Himachal Pradesh Panchayati Raj act 1994 and framed Himachal Pradesh Panchayati Raj (General) Rules 1997 and Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules 2002 to work as third tier of the government.

There are 12 Zila Parishads, 76 Panchayat Samities and 3243 Gram Panchayats in the State. The representatives of PRIs are elected after every five years. The last general election was held in December 2005.

1.2 Organizational Set up

The organograms given below depict the organizational structure of the Sate Government Panchayati Raj department and the PRIs at the ZP, PS, and GP level:



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

1.3 Devolution of Funds, Functions and Functionaries to PRIs

The 73 rd Constitutional Amendment Act envisages a three tier system of Panchayati Raj Institutions. Accordingly three tier Panchayati Raj system was provided under H.P. Panchayati Raj Act enacted in 1994. The State Government has been empowered under the Act to decide and confer powers and responsibility to the PRIs from among the 29 functions listed in the Eleventh Schedule.

1.3.1 Devolution of functions.

1.3.1.1 Inadequate transfer of functions.

The State Government through its notification (July 1996) entrusted only 26 functions, (**Appnedix-1**) out of 29 functions listed in the Eleventh Schedule of the Constitution relates to PRIs. Transfer of three functions namely i) Rural

electrification including distribution of electricity, ii) Adult and non-formal education and iii) Cultural activities, though mandated under the HPPR Act, 1994 for transfer, were not transferred and these functions are still (May 2009) being implemented by the respective departments. The Director (PR) stated (June 2006) that PRIs were not capable of handling these functions and hence the functions were not transferred.

1.3.1.2 Activity Mapping.

Activity Mapping is the sound foundation of Panchayati Raj. In order to avoid overlapping of function and its balance distribution among various tiers of PRIs, a mechanism for inter tier coordination was to be evolved for the 26 transferred functions. It was, however, noticed that the Activity Mapping has not been done by the State Government. Director, Panchayati Raj stated (April 2009) that Activity Mapping has been approved by the Chief Minister in December 2008 and the same had been sent to the concerned Departments for taking policy decision at Government level with regard to finalizing an Activity mapping so as to devolve function, power and functions and related functionaries to PRIs. Thus due to non-finalization of Activity Mapping, the principal of subsidiarity has not been achieved.

1.3.1.3 Non-transfer of Institutions.

Government order (July 1996) transferring functions also envisages transfer of institutions relating to transferred functions. Thus schools, primary health centers and hospitals, farm, post matric hostels, veterinary hospitals were to be transferred to the respective PRIs. The income accruing from these intuitions was to be treated as own income of the PRIs concerned. However, the actual control is still with the concerned departments and functions of these institutions were being carried out by respective departments.

1.3.2 Devolution of functionaries.

The transferred functions were to be accompanied by requisite devolution of functionaries and the State Government was therefore to provide required administrative structure and support to make the institutions and functionaries of the devolved functions accountable to the PRIs. The State Government had neither transferred the functionaries nor vested the PRIs with powers to

administratively control the functionaries associated in implementation of the devolved functions. The following deficiencies were noticed.

1.3.2.1 Non-merger of DRDA with Zila Parishad.

DRDAs created for implementation of Rural Development Programmes being sponsored by the Central Government were registered bodies under Societies Registration Act 1960. With the setting up of District Planning Committees (DPCs) and the provisions of the Act, DRDAs were either to be abolished or legitimately merged with the respective ZPs to function as a technical support agencies of the PRIs. However, DRDAs continue to exist as separate and distinct bodies. The Director (PR) admitted (June 2009) that there was no linkage between DRDA and Panchayati Raj Department. Due to non linkage between DRDA and Panchayati Raj Department monitoring of functions and funds becomes difficult. GPs may receive funds from both the departments for the same purpose. If DRDAs are merged with ZPs, the functions of PRIs can be monitored in a better way.

1.3.2.2 Lack of unified control of PRIs.

The administration and monitoring of three tier system of PRIs is not under unified control. First and third tier (ZP & GP) are under the department of Panchayati Raj while second tier (PS) is under Rural Development Department. In order to improve the functioning, monitoring and for administrative purposes, all the PRIs should have remained with a single department. The Director (PR), however, stated (June 2009) that the control of three tiers of PRIs though vested with Panchayati Raj and Rural Development Departments, all the three tiers of PRIs were independent constitutional bodies and role of both the departments was to guide the PRIs as per provisions of the HPPR Act 1994. The reply was not tenable as for improving the functioning and for accountability, the control should have been remained with one department.

1.3.2.3 Administrative control over functionaries.

The BDO had been designated to act as Executive Officers cum Secretary to the Second tier (PS) of PRIs. Similarly functionaries like Panchayats Secretaries, Panchayat Sahayak and Panchayat Inspectors were working in GP & PS for implementation of various PRI schemes but were under

administrative control of State Rural Development Department. These employees were being covered under the service conditions of their parent department and their salaries and allowances were also being paid by the respective departments. Thus for all purposes, these functionaries continued to perform as Government Servants subject to control by their parent department and not of the PRIs, thereby negating the basic objective of the decentralization. The Director (PR) while admitting (June 2009) the facts stated that the mechanism was being developed to deal with such problem by the department.

1.3.3 Devolution of funds.

Devolution of funds to PRIs should be a natural corollary to implement the transferred functions. The State Government has however not made the requisite devolution of funds as yet and the respective line departments continued to make separate budget for operation of the schemes involving devolved functions to PRIs.

1.3.3.1 Non-provision of funds under Panchayat Sector.

As agreed (October 2005) in the meeting between the State Chief Minister and Union Minister for Panchayati Raj, 'Panchayat Sector' in the State budget was to be created from the year 2006-07 for effective performance of the functions devolved to the Panchayats through activity mapping by entrustment of all schemes pertaining to the activities devolved upon the PRIs. 'Panchayat Sector' in the state budget was not opened as of 2008-09 and the respective line departments continued to make separate budget for operation of departmental schemes. Consistent with the development of functions, the matching funds to carry out the functions were not provided to the PRIs except assignment of the State revenue through State Finance Commission (SFC).

1.4 District Planning Committees.

As per Article 243-ZD of the Constitution of India, District Planning Committees (DPCs) are to be constituted by the State Governments so as to consolidate the development plans formulated by the local bodies. The State Government had constituted (May 2006) the DPCs in all the districts, but these are functional only in two districts (Chamba and Sirmour). Regarding non functioning of DPC in the remaining 10 districts, reply from the Director, PRI is awaited (September, 2010)

1.5 Sources of Funds.

Execution of various developmental works is carried out with funds provided by the Government of India and State Government and 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, tehbazari,¹ etc. The following table shows the financial position of PRIs for the last four years:-

Financial position of PRIs²

(` in lakh)

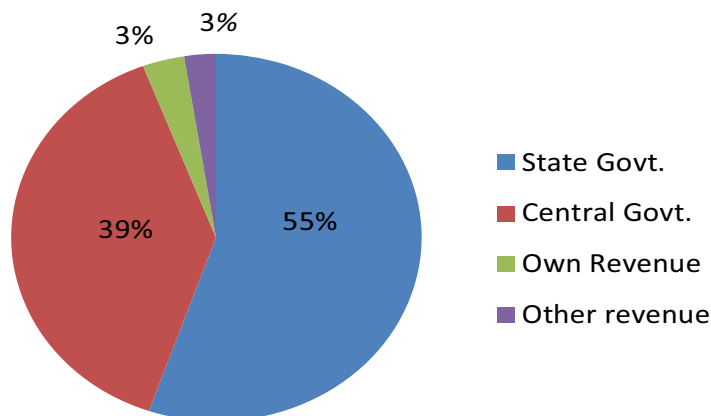
Sr. No.	Years	Receipts					Expenditure			
		State Govt.	Central Govt.	Own Revenue	Loans	Other revenue	Total	Capital	Revenue	Total
1.	2005-06	10650.23	7611.43	588.38	1.00	538.01	19389.05	12796.11	6592.94	19389.05
2.	2006-07	12337.32	8078.57	610.73	11.00	554.15	21591.77	14231.05	7360.72	21591.77
3.	2007-08	14101.82	8792.42	633.81	20.00	570.77	24118.82	16000.10	8118.72	24118.82
4.	2008-09*	6593.25	6175.75	735.15	0	338.10	13842.25	11765.91	2076.14	13842.05
5.	Total	43682.62	30658.17	2568.07	32.00	2001.03	78941.89	54793.17	24148.52	78941.69

*Figures for the year 2008-09 provided by the other departments to the PRIs is not available with the Panchayati Raj Department.

It was however, noticed that all the funds provided by the Panchayati Raj Department to the PRIs have been shown as expenditure. The exact figures of expenditure by the PRIs were not available with the Panchayati Raj Department.

Chart showing the trend of receipts during 2005-09 is given below:

Source of Funds of PRIs



¹ Small Khokhas/shops given on rent.

² Source-Director (PRI)

The major source of funds of PRIs during 2005-06 to 2008-09 was State Government (55%) and Central Government (39%) grants. The own revenue and other revenue is meager as compared to central and state grants.

1.5.1 Allocation of funds under Central/ State Schemes.

PRIs also receive funds from Rural Development Department (RDD) for various State Schemes and Centrally sponsored schemes. Three schemes namely, i) Community Development Programme (CDP), ii) Atal Awas Yojna (AAY) and iii) Mahila Mandal Protsahan Yojna (MMPY) are hundred percent State Sponsored Schemes. The position of funds allotted to the PRIs under these schemes during 2004-09 is given below:-

(` in lakh)

Year	CDP	AAY	MMPY
2004-05	125.49	1145.32	64.80
2005-06	123.58	1169.43	60.00
2006-07	426.44	1556.05	60.00
2007-08	411.67	1525.38	75.00
2008-09	672.35	2971.82	74.85

Besides, seven schemes namely i) Samproon Gramin Rojgar Yojna (SGRY) ii) Swaran Jayanti Swarojgar Yojna (SGSY), iii) Mahatama Gandhi National Rural Employment Guarantee Scheme (MNREGS), iv) Indira Awas Yojna (IAY), v) Integrated Watershed Development Project (IWDP), vi) National Benefit Scheme and vii) Total Sanitation Campaign Project (TSC) are Centrally sponsored schemes.

While no funds were released during 2004-09 under National Benefit Scheme, the position of funds allocated to PRIs under other schemes is given below:-

The position of allocation of Fund under major central schemes³

(` in lakh)

Year	SGRY	SGSY	MGNREGS	IAY	IWDP	TSC
2004-05	2925.42	975.53	0	981.29	1425.64	50.00
2005-06	2664.61	448.75	500.00	794.005	2919.705	661.06
2006-07	2441.06	1232.93	5075.15	1020.685	1936.765	270.065
2007-08	1399.66	1247.05	13454.86	1155.518	1659.58	1074.50
2008-09	21.12	1326.12	44128.14	2310.17	2938.06	1207.32

³ Source: Director Rural Development Department

These Centrally sponsored/ State sponsored schemes are implemented by the Gram Panchayats which are under the control of Panchayati Raj Department, but the funds are released by the Rural Development Department to the Gram Panchayats directly or through District Rural Development Agencies which are registered bodies under Societies Registration Act 1960. The Director (PR) admitted (June 2009) that there was no linkage between DRDA and Panchayati Raj Department.

1.6 Accounting Arrangement

The PRIs are maintaining their accounts in the proformas prescribed under Himachal Pradesh Panchayati Raj General Rules 1997. Accounts of the Gram Panchayats are being maintained by the Panchayat Secretary appointed by the Director and Panchayat Sahayak appointed on contract basis by the Executive Officer cum Block Development Officer. In case of PS, the accounts are maintained by the Accountants. Accounts of ZP are maintained by the Government officials of the office of DPO-cum-Secretary, ZP. There are no arrears in maintenance of accounts.

The EFC had recommended exercising control and supervision over maintenance of accounts of all the three tiers of PRIs by the CAG. The CAG has prescribed standard formats for budget and accounting system, but the Government of Himachal Pradesh has still not adopted these formats. The Director Panchayati Raj stated (April 2010) that matter regarding adoption of budget & accounts formats prescribed by the CAG was under process. The revised formats would be adopted from April 2011 as clarifications regarding adding of work wise details, receipts to be issued by the PRIs for receiving payments, trial balance, etc., in the PRIA software were brought to the notice of the Ministry of Panchayati Raj. The clarification was awaited as of September 2010.

1.7 Database of PRIs

As per recommendation of Eleventh Finance Commission (EFC), specific grants provided by the Government of India were to be utilized 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 the CAG. However, State Government has not yet implemented the database formats.

1.8 Audit Arrangements

Sub-Section (I) of section 118 of the Himachal Pradesh Panchayati Raj Act, (HPPRA) 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 have proper financial control on income and expenditure. The agency is required to conduct audit of all the three tiers of PRIs annually. The position of internal audit conducted during 2009-10 was as under:-

Name of Institution	Total units	No. of units audited	No. of units not audited	Percentage of short fall
1. Zila Parishad	12	8	4	33
2.Panchayats Samiti	75	59	16	21
3. Gram Panchayats	3,243	2,441	802	25

The Director, Panchayati Raj stated (March 2010) that targets fixed for audit could not be achieved during 2009-10 due to shortage of staff.

Comptroller and Auditor General of India conduct audit of PRIs under Technical Guidance and Support(TGS) arrangement as requested by the State Government vide letter no.PCH-HC(10)10/2002-23447 dated 8 December 2003.

1.9 Audit coverage

Audit of accounts of all the 12 ZPs, 25 PSs (out of 76) and 299 GPs (out of 3,243) was conducted during 2009-10 (**Appendix-2**). Important audit findings are discussed in the succeeding paragraph.

1.10 Internal Control Mechanism

1.10.1 Non-preparation of Budget estimates.

Rule 38 of HPPR Rules, 2002 provides that the annual Budget estimates of ZPs and PSs showing the probable receipts and expenditure for the following year are required to be prepared and approved within the prescribed date by the authorized body.

It was observed that out of 12 ZPs and 25 PSs test-checked, six ZPs and 8 PSs had not prepared the estimates for the period 2006-09. However, an

expenditure of ` 10.14 crore⁴ had been incurred between 2006-09 without approval of the estimates which was irregular (**Appendix-3**). In the absence of budget estimates, proper financial planning of PRIs with reference to actual expenditure incurred on developmental schemes could not be ascertained in audit.

The concerned PRIs stated (April 2009 to February 2010) that annual budget estimates would be prepared in future.

1.10.2 Non maintenance of registers

Rule 31 of HPPR Rules, 2002 stipulates that every PRI institution shall maintain important records, register, forms, etc., under the provision of the rules or the Act or any other law.

It was observed that important registers like stock register, immovable property register, works register, muster roll register, etc., were not being maintained in 7 ZPs, 10 PSs and 80 GPs during for the period 2004-09 as detailed in (**Appendix-4**). Due to non maintenance of records correctness of financial transactions could not be ascertained. Reasons for non maintenance of records were not intimated by the concerned PRIs and the PRIs stated (April 2009-March 2010) that the records would be maintained in future.

1.10.3 Bank reconciliation statements not prepared

Rule 15 (10) (b) of the HPPR Rules, 2002 provides that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. The difference, if any, shall be explained and accounted for in a foot note in the cash book.

However, it was noticed that difference of ` 2.43 crore as detailed in (**Appendix-5**) between cash books and pass book at the close of the year 2008-09 was not reconciled by 109 PRIs⁵. The authenticity of accounts of these PRIs could not be vouchsafed in the absence of non reconciliation with bank statements and possibility of embezzlement of funds could not be ruled out. The officers of the concerned PRIs stated (April 2009 to March 2010) that

⁴ ZPs: ` 3.44 crore and PSs ` 6.70 crore

⁵ 4 ZPs: ` 45.97 lakh; 09 PSs : ` 57.15 lakh and 96 GPs: ` 140.36 lakh

the differences would be reconciled. The reply was not acceptable as codal provisions had not be followed.

1.10.4 Non accountal of stores

Rule 69 of HPPR Rules, 2002 stipulates that all stores shall be examined, counted, measured or weighed at the time of taking delivery and shall be entered in the Stock register immediately. A certificate by the official shall be given at the end of the entries that the stores have been received in proper condition and according to specifications.

During 2004-09, nine GPs purchased materials like cement, stone, etc., amounting to ` 19.93 lakh⁶. The same was not accounted for in the books of concerned GPs. Possibility of misappropriation of material could not be ruled out. The concerned GPs stated (October-December 2009) that the material would be accounted for. The plea is not acceptable as it should have been accounted for immediately on receipt of it.

1.11 Twelfth Finance Commission grants

The Twelfth Finance Commission (TFC) made recommendations on the measures needed to augment the consolidated fund of States to supplement the resources to Panchayats and Municipalities on the basis of recommendations of SFC. The main objective of the scheme was to improve the service delivery of the Panchayats in respect of water supply and sanitation besides creating data base in the Panchayats. During 2006-09 `88.20 crore (at the rate of ` 29.40 crore each year) were allocated and released in six installments to PRIs. Finance Department had also issued utilization certificate of the whole amount.

1.11.1 Utilisation of TFC Funds

As per para 6.2 of the guidelines for release and utilization of grants recommended by TFC issued by the Ministry of Finance, Department of Expenditure, Government of India (GOI), the State Finance Secretary would be required to provide a certificate within 15 days of the release of each

⁶ Bangana Block (GPs: Hatli Kesru ` 0.54 lakh; Zol: ` 6.38 lakh; Takoli ` 1.25 lakh; chowki khas: ` 1.32 lakh and Arloo Khas ` 3.53 lakh)
Janjehli Block (GPs : Bhat-ki-dhar: ` 0.78 lakh and Manni: ` 1.51 lakh)
Nadaun Block (GPs: Dangri: ` 1.14 lakh and Sappar: ` 3.48 lakh)

instalment by the GOI under his signature certifying the dates and amounts of local grants received by the State from the GOI and the dates and amounts of grants released to the PRIs and ULBs. As per directions issued (July 2005) by the Director (PR) the PRIs would submit the utilization certificate of TFC grants to DPOs for further submission to the State Government within six months from the date of receipt of the grant.

1.11.2 Blockage of TFC grants

During 2009-10 records of 558 PRIs (ZPs:10; PSs:23 and GPs:525) were scrutinized. The position of funds received and utilization there against by these units during 2005-09 was as under:

(` in crore)

Year	Opening balance	Receipts	Total	Expenditure	Balance
2005-06	0	1.21	1.21	0	1.21
2006-07	1.21	6.12	7.33	1.86	5.47
2007-08	5.47	8.37	13.84	2.34	11.50
2008-09	11.50	8.83	20.33	12.37	7.96
Total		24.53		16.57	

It would be seen that during 2005-09, TFC grants of ` 24.53 crore were released between 2005-09 to 558 test-checked PRI units. Of this, ` 16.57 crore could be utilized upto 2008-09 for execution of various works leaving unspent balance of ` 7.96 crore. State Government has issued UC for the whole amount to Central Government. Non-utilization was attributed by PRIs to (i) non-approval of shelf, (ii) non-availability of guidelines of TFC and (iii) late receipt of funds, etc.

1.11.3 Delay in release of TFC grant by State Government

As per TFC guidelines, State Government is required to transfer the grants released by the Centre to PRIs and ULBs within 15 days from the date of its credit into State Government account. The delay in release of grants to ZPs, PSs and GPs by the DPOs of the State ranged between 5 and 133 days during 2008-09. No interest was allowed by the State Government to the PRIs for delayed payment of TFC grants. The DPOs attributed the delay in release of

grants to non-approval of schemes by the elected house, non-receipt of shelf, etc.

1.11.4 Diversion of funds

As per guidelines priority should be given to utilise the TFC grants on O&M cost of water supply and sanitation schemes. It was, however, noticed that an amount of ` 1.33 crore was utilized by GPs during 2005-06 and 2008-09 on 510 inadmissible schemes like construction of Pucca Path, Retaining Walls, Community Halls, Mahila Mandal Bhawan and Sarais etc.

1.11.5 Non-receipt of UCs from GPs

As per TFC guidelines, ZPs, PSs & GPs are required to furnish UCs to DPO through Block Development Officer within a period of six months from the date of receipt of grant. During audit of Twelve DPOs it was noticed that utilisation certificates for ` 25.10 crore in respect of the grant released were not received from Zila Parishads, Panchayat Samities and Gram Panchayats whereas State Government is sending UCs to Government of India every year.

1.11.6 Monitoring

As recommended by the TFC, a High Level Monitoring Committee (HLC) headed by Chief Secretary, was constituted by State Government in April, 2005 at State level for monitoring proper utilization of grants. The meeting of the HLC was required to be held every quarter and HLC was responsible through its quarterly meeting for monitoring of both physical and financial targets and ensuring adherence to the specific conditions attached to each grant. Only three meetings of the said committee were held on 17.1.2006, 21.7.2006 and 5.2.2010. The above cases of delay in the release of grants by the State Government and the utilization by the PRIs, diversion of TFC grants, irregularities in utilization of TFC grants, etc., are indicative of the ineffective functioning of the HLC. The Director, Panchayati Raj stated (April 2010) that meetings of the committee were to be convened by the Finance Department being Nodal Department for this purpose.

1.12 Outstanding Inspection Reports.

As a result of audit of PRIs by Pr. AG office under TGS, 1,187 inspection reports containing 7,952 paras were issued to the concerned PRIs during 2005-10 as per details given below:-

Sr.No.	Year of issue of Inspection Reports	No. of Inspection Reports	No. of paras issued	No. of paras settled	No. of outstanding IRs/Paras	
					IRs	Paras
1.	Upto 2007-08	531	2764	38	531	2726
2.	2008-09	320	2687	9	320	2678
3.	2009-10	336	2501	0	336	2501
	Total	1187	7952	47	1187	7905

Increasing trend of outstanding Inspection Reports and paras is indicative of non-compliance of audit observations and has resulted in erosion of accountability.