CHAPTER V

PERFORMANCE REVIEW (PANCHAYAT RAJ INSTITUTIONS)

This Chapter presents one performance review dealing with Implementation of accepted recommendations of Third State Finance Commission in Panchayat Raj Institutions.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

5.1 Implementation of accepted recommendations of Third State Finance Commission in Panchayat Raj Institutions

Executive summary

Government of Tamil Nadu (GTN) constituted Third State Finance Commission (TSFC) in December 2004 as per Article 243 (I) and 243 (Y) of the Constitution of India to analyse the financial position of local bodies and to make recommendations for the award period 2007-2012. TSFC submitted its report in September 2006. Performance audit on implementation of accepted recommendations of Third State Finance Commission in Panchayat Raj Institutions (PRIs) revealed that an amount of ₹ 76 lakh relating to Tax on Cable Television for the period from 2003-04 to 2008-09 (upto June 2008) was not assigned to the PRIs in six districts as of November 2010. Mines and mineral fees of ₹ 89.97 crore due to Village Panchayats in 21 districts for the period from April 2007 to March 2010 were adjusted after a delay of one to 26 months. Excess allocation to Infrastructure Gap Filling Fund resulted in short assignment of State Finance Commission devolution grant to Village Panchayats to the extent of ₹ 111.46 crore. Self Help Groups and Social Audit have not been involved at Village Panchayats level. Moreover, the High Level Committee did not meet even once to monitor the implementation of accepted recommendations of TSFC, thus defeating the objective of TSFC.

5.1.1 Introduction

Government of Tamil Nadu (GTN) constituted Third State Finance Commission (TSFC) in December 2004 to analyse the financial position of local bodies and to make recommendations on (a) distribution and determination of taxes, duties, tolls, fees and grants-in-aid to local bodies, (b) possible new avenues for tapping resources in local bodies considering the tax structure, (c) present system of accountability of local bodies in utilization of the resources raised/received from Government and the adequacy of audit and (d) parallel control/functions of line departments/parastatal agencies over local bodies for the award period 2007-2012.

TSFC submitted its report to the State Government in September 2006 with 306 recommendations. The State Government accepted 90 in full, 72 in part/in principle and negated 89. The remaining was pending with Government/ High Level Committee.

Government released the funds in two way packages viz., Pool A and Pool B. Under Pool A, the departments concerned assigned the revenue to PRIs through the District Collector/District level officers. Under Pool B, devolution grant was shared between PRIs and Urban Local Bodies (ULBs) in the ratio of 58:42 for the years from 2007-08 to 2009-10.

TSFC recommended (i) the procedure to be followed for the release of assigned/shared revenue to PRIs, (ii) the modalities to be followed for the collection of property tax, user charges, profession tax, cable TV tax etc., (iii) the device for allocating the State's own tax revenue and the time frame for release of devolution grants to PRIs, (iv) the time frame for finalization and submission of annual accounts to Local Fund Audit and settlement of long pending paragraphs and (v) monitoring mechanism to watch the implementation of the recommendations.

Action Taken Report was placed on the floor of the Legislative Assembly in May 2007. Administrative departments concerned were to issue orders and monitor implementation of the recommendations of TSFC.

5.1.2 Organisational Setup

The role and responsibilities of officials in respect of implementation of the recommendations of the TSFC were as given below:

Committee of Secretaries of Finance Department, Municipal Administration and Water Supply Department and Rural Development and Panchayat Raj Department	Responsible for preparation of draft Action Taken Report for approval of Cabinet Committee.
Cabinet Committee consisting of Minister for Finance, Minister for Rural Development and Local Administration, Minister for Public Works and Minister for Higher Education	Responsible for approving the Action Taken Report to be placed on the floor of the Assembly
Finance Department and Administrative departments of Municipal Administration and Water Supply, Rural Development and Panchayat Raj, Commercial Taxes, Registration and Industries (Geology and Mining)	Responsible for issue of Government orders and monitoring the implementation of accepted recommendations of the TSFC.
High Level Committee under the Chairmanship of Chief Secretary with Secretaries of Finance, Municipal Administration and Water Supply and Rural Development and Panchayat Raj Departments as members of the Committee	Monitoring the implementation of the accepted recommendations of the TSFC.

5.1.3 Audit Objectives

The audit objectives were to ascertain whether

- Funds transfer based on accepted TSFC recommendations was effective,

- Grama Sabha and Self Help Groups were functioning effectively in the Village Panchayats and
- The monitoring mechanism in implementing the accepted recommendations of TSFC was effective.

5.1.4 Audit Criteria

Audit findings were benchmarked against the following criteria:

- Accepted recommendations of TSFC;
- Explanatory memorandum on the action taken on the recommendations of TSFC and
- Government orders and Department Circulars/instructions on implementation of recommendation of TSFC.

5.1.5 Scope and Methodology of Audit

The Performance Audit was conducted between July 2010 and November 2010 covering SFC grants including assigned revenue for the years from 2007-08 to 2009-10. The records in the offices of Finance, Rural Development and Panchayat Raj (RDPR), Commercial Taxes, Registration, Industries (Geology and Mining), Environment and Forest and Fisheries Departments and its district/regional level offices were test-checked during the course of audit. Records of 58 Panchayat Unions out of 385 Panchayat Unions selected on the basis of stratified sampling were test checked **(Appendix 5.1).** The findings were discussed with the Commissioner of Rural Development and Panchayat Raj on 7 February 2011. Exit conference was held with Commissioner, Rural Development and Panchayat Raj on 12 May 2011 on behalf of Government.

Audit Objective 1: To assess whether funds transfer based on accepted TSFC recommendations was effective

5.1.6 Resource base

Assigned/Shared Revenue

Accepted recommendations on assigned/shared revenue were as follows:

- The vertical sharing ratio of devolution between PRIs and ULBs shall be 58:42. The horizontal sharing ratio among the PRIs (i.e Village Panchayats, Panchayat Unions and District Panchayats) shall be 60:32:8.
- The entire tax proceeds realized from the Cable TV from 2003-2006 shall be passed on to the respective PRIs in 2007-08.
- The sharable income from mines and minerals to be adjusted on a quarterly basis in the same financial year.
- At least 25 *per cent* of proceeds from fishery rental of Public Works Department (PWD) tanks to be given to the Village Panchayats.

It was noticed during the review that there were non assignment and delayed assignment revenue in spite of the recommendations of TSFC on assigned/shared revenue as given below:

5.1.6.1 Excess allocation to Infrastructure Gap Filling Fund (IGFF)

Five *per cent* out of entire share of PRIs was deducted from the Village Panchayats share instead of five *per cent of* Village Panchayats share of 60 *per cent* towards Infrastructure Gap Filling Fund

State Government while accepting the recommendation in respect of vertical sharing and horizontal sharing stated that it shall reserve five per cent out of 60 per cent share of the village panchayats from the State Finance Commission devolution towards Infrastructure Gap Filling Fund (IGFF). Audit scrutiny revealed that five *per cent* out of entire share of PRIs was deducted by the Government from the Village Panchayats share instead of five *per cent* of Village Panchayats share of 60 *per cent* and credited to IGFF as indicated in **Table 5.1.**

Table 5.1: Excess allocation to Infrastructure Gap Filling Fund

(₹ in Crore)

Year (1)	PRIs Share (2)	60 *per cent* share of PRIs (3)	Amount allocated to IGFF (4) 5 *per cent* of col. (2)	Amount to be allocated to IGFF (5) 5 *per cent* of col. (3)	Excess allocation (6) col. (4) – col. (5)
2007-08	1,583.59	950.15	79.18	47.51	31.67
2008-09	1,716.44	1,029.86	85.82	51.49	34.33
2009-10	1,926.57	1,155.94	103.26*	57.80	45.46
Total	**5,226.60**	**3,135.95**	**268.26**	**156.80**	**111.46**

* Amount allocated at 5.36 *per cent* of the total PRIs share.

From the above table, it can be seen that there was excess deduction from the State Finance Commission devolution grant to Village Panchayats to the extent of ₹ 111.46 crore for the period from 2007-08 to 2009-10.

3,709 Village Panchayats had ₹ 75.41 crore as outstanding water charges payable to Tamil Nadu Water Supply and Drainage Board while 4,201 Village Panchayats had ₹ 47.93 crore as outstanding electricity charges payable to Tamil Nadu Electricity Board. Release of entitled devolution grant would have helped the Village Panchayats in paying their outstanding dues.

During Exit conference (May 2011), Commissioner of Rural Development and Panchayat Raj (CRDPR) stated that necessary action will be taken to release the correct amount for the year 2011-2012.

5.1.6.2 Non-assignment of Cable TV Tax

Cable TV tax amounting to ₹ 76 lakh for the period from 2003-04 to 2008-09 was not assigned to Village Panchayats in six districts

Even though Government accepted the recommendation that whatever Cable TV tax collected shall be passed on to the PRIs till the Act was amended no orders were issued in this regard. As a result, amount of ₹ 76 lakh collected as Cable TV tax for the period from 2003-04 to 2008-09 (upto June 2008) was not assigned to the Village Panchayats in six districts[1] as of November 2010. Deputy Commissioners of Commercial Taxes Department of the six districts replied (August 2010 - November 2010) that orders were not received from the

[1] Coimbatore : ₹ 36.97 lakh; Krishnagiri : ₹ 2.99 lakh; Pudukkottai : ₹ 17.19 lakh; Thoothukudi : ₹ 1.08 lakh; Tirunelveli : ₹ 15.55 lakh and Virudhunagar : ₹ 2.22 lakh; **Total : ₹ 76 lakh**.

Commissioner of Commercial Taxes to release the amount. This resulted in deprival of legitimate share of revenue from Cable TV tax to PRIs.

During Exit conference (May 2011), CRDPR stated that Commissioner of Commercial Taxes Department had been addressed to release the tax on Cable TV to the PRIs.

5.1.6.3 Delay in assignment of mines and mineral fees

Audit noticed that mines and mineral fees of ₹ 89.97 crore due to the Village Panchayats in 21 districts for the period from April 2007 to March 2010 were adjusted after a delay of one to 26 months. The Assistant Directors/Deputy Directors of Geology and Mining of the 21 districts replied (July 2010 – November 2010) that due to administrative reasons, shortage of manpower and heavy workload the delay had occured. Reply is not tenable as the administrative department i.e. Industries (Geology and Mining) did not initiate any action to implement the accepted recommendations of the TSFC to adjust the sharable income from mines and minerals on quarterly basis and the PRIs did not get their due share in time.

5.1.6.4 Non-allocation of Fishery rental receipts

Fishery rentals were not allocated to Village Panchayats for the period 2007-10

Even though Government accepted the recommendation to share the proceeds of fishery rentals from PWD tanks with local bodies in the ratio of area of submergence, no orders were issued to share the revenue. As a result, fishery rental receipts were not credited to the Village Panchayat accounts for the period 2007-10. Non-issue of Government order to share the revenue of fishery rentals even after accepting the recommendations of TSFC resulted in denial of revenue to Village Panchayats.

During Exit conference (May 2011), CRDPR stated that the matter will be brought to the notice of the Government and action will be taken for allocation of fishery rentals by the Fisheries Department to the PRIs.

Recommendation 1: Administrative Department should issue Orders for implementing the accepted recommendations of TSFC.

Audit Objective 2: To ascertain whether the Grama Sabha and Self Help Groups were functioning effectively in the Village Panchayats

5.1.7 Grama Sabha and Self Help Groups role in Village Panchayats

Accepted recommendations on Grama Sabha and Self Help Groups were as follows:

- The documents of Village Panchayats including the details of contracts awarded and the list of approved contractors etc., to be submitted in Grama Sabha meetings.
- To involve Self Help Groups in social aspects to improve the living conditions of rural women folk and highlight the problems of rural people.

5.1.7.1 Non-creation of Social Audit system

Government while accepting the recommendation stated that PRIs shall be advised suitably. Audit scrutiny revealed that orders/instructions have not been issued by the Government and the recommendations of TSFC were not implemented.

During Exit conference (May 2011), CRDPR stated that Social Audit under National Rural Employment Guarantee Scheme is being undertaken and records relating to financial matters, expenditure, public distribution system etc., are placed before the Grama Sabha for discussion and approval. He further stated that audit remarks will be considered for taking further necessary action. There was no documentary proof showing conduct of Social Audit.

5.1.7.2 Non-involvement of Self Help Groups

Audit noticed that PRIs did not conduct mass awareness programmes by involving Non Government Organisations in creating awareness among the public regarding powers, functions and responsibilities of Grama Sabha and to allow them as watch dogs of the local body administration. RDPR Department did not initiate action to implement the recommendation of TSFC which was accepted by the Government. Non-involvement of Self Help Groups in implementation of the development programmes in Village Panchayats defeated the objective of the recommendations of TSFC.

During Exit conference (May 2011), CRDPR stated that Self Help Groups are informed well in advance about the conduct of Grama Sabha by the Village Panchayats and they are participating in the debate during the Grama Sabha meetings.

Recommendation 2: The Administrative Department i.e Rural Development and Panchayat Raj Department should issue necessary orders for implementing the recommendations of TSFC.

Audit Objective 3: To ascertain whether the monitoring mechanism in implementing the accepted recommendations of TSFC was effective

5.1.8 Monitoring Mechanism

Accepted recommendations for monitoring mechanism were:

- Decision on all recommendations made by TSFC shall be taken at the earliest without undue delay.

5.1.8.1 Monitoring by High Level Committee

Government empowered (December 2005) the High Level Committee[2] already in existence in the State to approve the projects undertaken under Twelfth Central Finance Commission devolutions. Government further gave detailed

2 Headed by the Chief Secretary, Secretaries of Finance, Rural Development and Panchayat Raj and Municipal Administration and Water Supply Departments as members.

guidelines regarding approval of projects, quantification of targets, monitoring both physical and financial targets, etc.

High Level Committee formed in May 2007 did not meet even once to monitor the implementation of accepted recommendations of TSFC

Government empowered (May 2007) the same High Level Committee to oversee the implementation of the decisions taken by the Government on the recommendations of the TSFC and the follow up action thereon. However, Government while empowering the High Level Committee did not give any detailed guidelines listing out the functions to be undertaken by the Committee as given for overseeing implementation of Twelfth Central Finance Commission recommendations. Due to absence of such guidelines, the High Level Committee did not monitor the implementation of the accepted TSFC recommendations at all as detailed below:

On seeking information relating to meetings of High Level Committee, Finance Department stated (May 2011) that the Action Taken Report on the recommendations of TSFC has been communicated to the departments concerned for implementation and the same are being implemented by the departments after issue of orders in consultation with Finance Department. Hence, convening of High Level Committee meetings may not arise at this juncture. The reply is not tenable as Government in May 2007 stated that the implementation of the decisions taken by the Government on the recommendations of the TSFC and the follow up action taken shall be monitored by the High Level Committee headed by the Chief Secretary on half yearly basis. However, it did not meet even on a single occasion to monitor the implementation of the accepted recommendations of TSFC resulting in deficiencies as pointed out in the preceding paragraphs.

Recommendation 3: High Level Committee should meet every six months as ordered by Government and monitor the implementation of the recommendations of TSFC.