

Chapter 2

Performance Audit on “PRIs’ resources and their utilisation”

Executive Summary

Panchayati Raj Institutions (PRIs) are established in the State to enable local self-government for providing better village administration and development. It consists of three tier *Panchayats* at village (*Gram Panchayat*), block (*Kshetra Panchayat*) and district (*Zila Panchayat*) level and is headed by elected representatives the *Pradhan*, *Pramukh* and the *Adhyaksh* respectively. They are entrusted with various functions¹ and public funds (tax and non-tax revenue and grants provided by GoI and the State Government) to deliver basic services to local people as per their needs.

Performance Audit of ‘PRIs’ resources and their utilisation’ for the period of 2011-16 covered test check of 10 *Zila Panchayats*, 26 *Kshetra Panchayats* and 166 *Gram Panchayats* in 10 districts² out of 75 *Zila Panchayats* (one in each district of the State), 821 *Kshetra Panchayats* and 59,162 *Gram Panchayats* in the State.

Audit observed that the PRIs were not adequately empowered to function as effective institutions of *Panchayati Raj* in terms of generation of resources as well as their utilisation due to the following:

PRIs’ resources

The revenue realised (₹898.74 crore) by PRIs from their own sources compared to their total resources (₹30,696.07 crore) of 2011-16 was insignificant (three *per cent*).

(Paragraph 2. 7.1)

Due to ineffective levy of tax during 2011-16, there was loss of Circumstances & Property tax (CP tax) of ₹5.52 crore in five ZPs.

(Paragraph 2.7.1.1 Tax Revenue)

On account of poor collection efficiency during 2011-16, there was accumulation of unrealised rent fee of ₹2.12 crore in nine ZPs. Due to laxity of State authorities, rate of license fee of Industrial and Commercial premises was not revised since 1999 and 2005 respectively. Consequently, license fee ₹3.81 crore was not levied during 2012-16 in two ZPs. Potential tax sources *viz.*, advertisement tax and tax on passing of maps of commercial premises available with ZPs were not tapped.

(Paragraph 2.7.1.1 Non tax revenue)

¹ 16 out of 29 functions have been transferred to PRIs in the State.

² Agra, Ambedkarnagar, Bulandshahar, Jaunpur, Mathura, Sambhal, Shravasti, Siddharthanagar, Sonbhadra and Unnao.

Undue favour was given to a defaulting licensee in ZP Sonbhadra for collecting transportation fee from vehicles collecting and transporting sand, *morum*, stone grit *etc.* by waiving off license fee of ₹2.43 crore for the period 2008-10 and not recovering the license fee of ₹1.62 crore pertaining to 2012-13 from the same licensee as of June 2016.

(Paragraph 2.7.1.1 Case Study)

Resource utilisation:

There was no annual planning for effective utilisation of resources in test checked ZPs and KPs. GPs did not prepare *Gram Panchayat Development Plan* (GPDP) though required under the *Panchayati Raj Act*, 1947.

(Paragraph 2.7.2.1)

Weak Financial Management of PRIs led to a balance of ₹172.82 crore (GPs: ₹10.26 crore, KPs: ₹10.57 crore and ZPs: ₹151.99 crore) with test checked PRIs by the end of March 2016. During 2011-16, test checked 26 KPs and 166 GPs drew funds ₹84.93 crore and ₹62.09 crore from their *Kshetra Nidhi and Gram Nidhi* respectively without passing their annual budgets though required under their Acts.

(Paragraph 2.7.2.2)

At the level of execution of works for delivering basic services, systemic lapses *viz.*, execution of *intra* GP works of ₹394.14 crore and penalty amounting to ₹6.28 crore for delay in completion of works not deducted by ZPs were noticed. The test checked GPs purchased construction material amounting to ₹17.00 crore during 2011-16 without following the prescribed purchase procedures.

(Paragraph 2.7.2.3)

Monitoring of resource generation and their utilisation by State and district level officers was not robust. Various deficiencies of internal control/checks were noticed in test checked PRIs.

(Paragraph 2.7.2.4)

2.1 Introduction

To establish and develop local self-government in rural areas of the State and to make better provision for village administration and development, the State Government notified a *Gram Panchayat* (GP) for every *Panchayat* area under section 11-F of *Uttar Pradesh Panchayati Raj Act*, 1947 (UP PR Act). Under section 3 of *Uttar Pradesh Kshetra Panchayat and Zila Panchayat Act*, 1961 (UP KP & ZP Act), area of villages of a district was divided into Blocks and each Block has a *Kshetra Panchayat* in the name of Block itself. Likewise under section 17 of the Act, each district has a *Zila Panchayat*. *Panchayati Raj* Institutions (PRIs) exercise their powers, duties, functions and administration as prescribed in the aforesaid Acts. GPs, KPs and ZPs are headed by elected representatives the *Pradhan*, *Pramukh* and the *Adhyaksh* respectively. Their tenure is five years unless dissolved earlier.

PRIs are entrusted with public resources to deliver basic services to local people as per their needs. Functions devolved to PRIs under Article 243 are given in **Appendix 1.3**. PRIs (GPs³, KPs⁴, and ZPs⁵) are empowered to levy and collect tax and non-tax revenue. However, the State Government could revise or remit the whole or part of taxes levied by PRIs. GoI and the State Government released grants to PRIs under the recommendations of Central and State Finance Commissions. Revenue generated and grants received are deposited in the bank account of *Gram Nidhi*, *Kshetra Nidhi* and *Zila Nidhi* established under provisions of PRIs' Acts.

2.2 Organisational set up

PRIs are headed by elected representatives and consist of members depending upon population of the *Panchayat*. Different functions of the PRIs are executed through six Committees⁶ consisting of a nominated head and six other members elected by members of the *Panchayat* from among themselves.

At the Government level, Additional Chief Secretary is administrative head of the *Panchayati Raj* Department and exercises overall control at State level through Director, *Panchayati Raj* and *Zila Panchayat* Monitoring Cell and at district level through District *Panchayati Raj* Officer. *Apar Mukhya Adhikary* (AMA) in ZPs, Block Development Officer assisted by Assistant Development Officer (*Panchayat*) in KPs and *Gram Panchayat Adhikary*/*Gram Vikas Adhikary* in GPs are responsible for ensuring provision of basic services in rural areas of the State.

Schematic representation of the organisational set up of PRIs and the *Panchayat Raj* Department is given in **Appendix 1.1**.

2.3 Audit objectives

The following audit objectives were set to assess whether:

- PRIs took effective measures for improving their revenue generation and that the State Government took suitable steps to empower PRIs' to generate revenues from available resources;
- Development planning and financial management in the PRI's were efficient and effective;
- Works taken up for providing basic facilities were executed as per prescribed norms/specifications; and
- Monitoring mechanism was robust, adequate and effective.

2.4 Audit criteria

The audit criteria for the PA were drawn from the following sources.

- UP PR Act, UP KP & ZP Act and Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* Works Rules, 1984.

³under section 37 of the *Panchayati Raj* Act, 1947.

⁴under section 131-A of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* Act, 1961.

⁵under section 119 of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* Act, 1961.

⁶Planning and Development Committee, Education Committee, Construction Work Committee, Health and Welfare Committee, Administrative Committee and Water Management Committee.

- Recommendations/guidelines of the Central Finance Commission (CFC) and State Finance Commissions (SFC).
- Provisions of Financial Rules (FHB), schedule of works of Public Works Department and departmental Manuals.
- Reports and returns submitted/maintained in the *Panchayati Raj* Department.

2.5 Methodology and sample size of audit

Audit methodology included scrutiny of basic records, collection of information, audit enquiries, obtaining replies on the audit observations, conducting site inspections and taking photographs of the works executed. The Entry Conference was held with Principal Secretary (*Panchayati Raj*) on 14 March 2016. Audit of PRIs and the Office of Principal Secretary (*Panchayati Raj*) and Director, *Panchayati Raj* Department for the period of 2011-16 was conducted during April to August 2016. Government replies on audit observations and results of Exit Conference held on 27 February 2017 have been suitably incorporated in the performance audit report.

The State comprises of 75 districts with a ZP in each district, 821 KPs and 59,162 GPs. Of these, 10 districts, 26 KPs of the selected districts and 172 GPs were selected (**Appendix 2.1**) for audit scrutiny using Simple Random Sampling without Replacement (SRSWOR) method. However, audit of six GPs⁷ could not be done due to constraints like absence of records and records not produced to Audit.

2.6 Acknowledgement

Audit acknowledges the overall cooperation and assistance provided during the performance audit by the State Government and its Officers/officials and the officials of three tier PRIs.

2.7 Audit findings

2.7.1 Generation of resources

PRIs at all the three tiers need to raise their own tax and non-tax revenues. Revenue realisation is improved through raising bills promptly and ensuring their efficient collection. Rates of the taxes/fee are to be revised time to time and available new sources are also to be tapped. In addition, the Governments are to augment their tax assignment and fiscal transfers to enable them for providing basic services to village people. To increase ZPs resources, the State Government directed (March 1998) ZPs to act upon preparation of Bye-laws under section 239 of UP KP & ZP Act for controlling various activities in their areas. It directed (June 1998 and December 2004) the concerned Commissioners⁸ also for according early approval of the Bye-laws.

Overall financial status of the resources of the PRIs' in the State during 2011-16 and the audit findings related to generation of revenue through their

⁷ GP Angwal of KP Kathari of Ambedkar Nagar, GP Aflepur of KP Shahganj of Jaunpur, GP Sonwal of KP Naugarh of Siddharthanagar, GP Nandauli of KP Auras of Unnao, GP Bhikhampur and Gopalpur of KP Ganj Moradabad of Unnao districts.

⁸ Commissioner is the competent authority for enforcing new tax/revision of existing tax rates.

own sources ₹ 898.74 crore (three *per cent*) compared to their total resources (₹ 30,696.07 crore), avoidable payment of interest (₹ 1.64 crore), interest not paid (₹ 6.08 crore) for delay in release of CFC grants to PRIs and lapse of SFC grants (₹ 332.68 crore) is given in Chapter-I of the Report.

In test check of audit it was noticed that except ZPs, other two tiers of PRIs (KPs and GPs) did not generate revenue. The State Government also did not act upon various recommendations for improvement in generation of revenue. Audit findings in respect of the test checked PRIs are discussed in succeeding paragraphs.

2.7.1.1 ZPs' resources

Circumstances & Property-Tax (CP tax) is the only tax through which ZPs generated tax revenue. Non-Tax Revenues are generated through license fee, fee on disposal of dead animals, rent from property *etc.* In addition to their own resources, ZPs get devolution of grants based on their population. The resources of the test checked 10 ZPs during 2011-16 is given in **Table 1** and **Chart 2**.

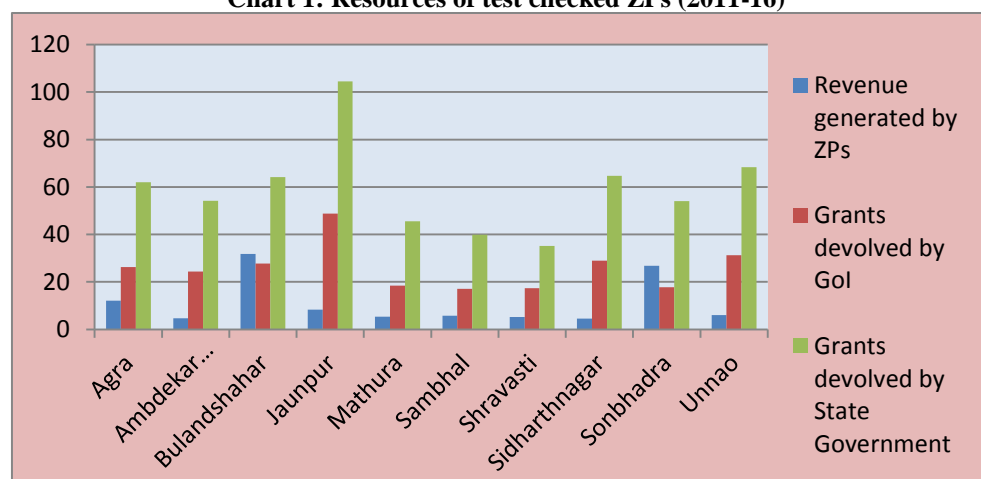
Table 1: Resources of test checked ZPs (2011-16)

(₹ in crore)

Sl. No.	Name of ZPs	Revenue generated by ZPs	Grants devolved by GoI	Grants devolved by State Government	Total resources
1.	Agra	12.08	26.21	62.01	100.30
2.	Ambdekar Nagar	4.72	24.33	54.23	83.28
3.	Bulandshahar	31.77	27.70	64.21	123.68
4.	Jaunpur	8.32	48.75	104.51	161.58
5.	Mathura	5.37	18.39	45.56	69.32
6.	Sambhal	5.75	17.13	39.94	62.82
7.	Shravasti	5.23	17.30	35.14	57.67
8.	Sidharthnagar	4.53	28.97	64.67	98.17
9.	Sonbhadra	26.85	17.81	54.03	98.69
10.	Unnao	5.96	31.19	68.41	105.56
	Total	110.58	257.78	592.71	961.07

(Source: Concerned ZP)

Chart 1: Resources of test checked ZPs (2011-16)



It may be seen from **Table 1** that total resources of the ten test checked ZPs during 2011-16, was ₹ 961.07 crore. However, contribution of revenue generated by ZPs through own sources ₹ 110.58 crore was only 11.51 *per cent*.

Government while accepting the audit findings stated that various efforts such as revision in Bye-laws, public auction and recovery of arrears are being taken by concerned ZPs to increase the revenue. The fact remains that the revenue generated through own source by ZPs was only about one eighth of their total resources during 2011-16.

Tax Revenue

Raising bills to Circumstances and Property tax payers

Under section 119 of the UP KP & ZP Act, 1961, ZPs levy and recover Circumstances and Property tax at the rate of three *per cent* of the taxable income, from persons who reside or carry out business in rural areas subject to the condition that the taxable income should not be less than ₹12,000 per annum. As per Rule 8 of Uttar Pradesh *Zila Panchayat* (Imposition, Assessment and Collection of Circumstances and Property Tax) Rules, 1994, the tax officer prepares a list every year for approval of ZP and raising bills subsequently. After approval of ZPs, one month notice is to be served to the concerned person for filing appeal, if any.

Improper billing of Circumstances and property tax caused revenue loss of ₹ 5.52 crore during 2011-16 in five ZPs.

Audit noticed that the CP Tax was not enforced in ZP Jaunpur. During 2011-16, the remaining test checked nine ZPs assessed CP tax of ₹10.61 crore and recovered ₹6.23 crore (58.72 *per cent*) leaving a balance of ₹4.38 crore (*Appendix 2.2*). It was observed that the tax officers in all the test checked ZPs prepared list of potential tax payers every year during 2011-16⁹ and notices were also served to the listed tax payers. Since no one turned up for appeal within stipulated period, bills were to be raised to all the potential tax payers. But the test checked five ZPs raised bills to only a few of them leaving out many potential tax payers. ZP-wise status of the potential tax payers, tax assessed and short assessment of revenue is given in the **Table 2**:

Table 2: Status of potential tax payers and tax lost during 2011-16

Sl. No.	Name of ZPs	Period	Potential tax payers		Tax assessed		Short assessment	
			No. of potential tax payers	Tax to be assessed (₹in lakh)	No. of tax payers to whom bills raised	Tax demanded (₹in lakh)	No. of tax payers to whom bills not raised	Tax not billed (₹in lakh)
1.	Agra ¹⁰	2013-14	373	22.38	232	5.81	141	16.57
2.	Ambedkar Nagar	2011-16	13,336	198.15	3,905	39.11	9,431	159.03
3.	Mathura ¹¹	2012-14	1,338	41.87	545	14.89	793	26.98
4.	Shravasti	2011-16	15,278	215.10	2815	46.71	12,463	168.39
5.	Siddharth nagar	2011-16	22,138	302.84	12,550	121.59	9,588	181.25
Total			52,463	780.34	20,047	228.11	32,416	552.22

(Source: Concerned ZP)

⁹ ZP Agra and Mathura did not complete the action of assessment of CP Tax for 2014-16 as of June 2016.

¹⁰ CP Tax was effective from 2013-14.

¹¹ CP Tax was effective from 2012-13.

It is evident from the **Table 2** that during 2011-16, out of 52,463 potential tax payers, bills to only 20,047 tax payers were raised by five test checked ZPs. The remaining 32,416 potential tax payers were not billed and consequently, revenue of ₹5.52 crore was lost. The remaining four ZPs (Bulandshahar, Sambhal, Sonbhadra and Unnao) though raised bills to all the listed tax payers during 2011-16, recovered the billed amount only partially (**Appendix 2.2**) to the extent of 98, 31, 22 and 64 *per cent* respectively.

Hence, assessment, collection and enforcement of CP tax in ZPs were weak and led to substantial loss of tax revenues.

Government in reply stated that efforts are being made to recover the dues. Reply is not acceptable because assessment and raising of bills of CP tax was not carried out in respect of large number of potential tax payers in the respective years which caused substantial loss of potential revenue.

Inaction of State Government to improve ZPs' resources

FC-XIII recommended that the State Government should incentivise revenue collection by PRIs through methods such as mandating some or all local taxes as obligatory at non-zero rates of levy, by deducting deemed own revenue collection from transfer entitlements of local bodies or through a system of matching grants. Further, Third SFC recommended (2009) measures for improving revenue assessment and effective realisation of revenue. The recommendations mainly included the following:

- The CP tax being levied in 52 ZPs only, should be levied by all 75 ZPs;
- Rate of CP tax should be enhanced from 3 to 5 *per cent*;
- Assessable income per annum should be raised from ₹12,000 to ₹25,000; and
- *Apar Mukhya Adhikary* should be empowered to recover outstanding dues by issuing recovery certificates as dues of land revenue.

It was however, noticed that the department did not act on these recommendations. Consequently, the rate of CP tax, its limit *etc.*, remained unchanged since its inception in 1994.

Government while accepting the audit finding stated that the CP tax is now levied in 71 district of the State and revision in the *Niyamavali* for other issues of the CP tax is under process with the Government.

Non-Tax revenue

Outstanding rent with shopkeepers

Rent fixed by ZPs was to be paid by the shopkeepers who were allotted shops on rent basis. The rent was subject to upward revision by 25 *per cent*, every three years.

Audit observed that due to poor realisation, rent from ZP's own shops remained unrecovered. Details of number of shops owned by test checked ZPs, rent in arrear at the beginning of 2011-12, rent assessed and recovered during 2011-16 and rent outstanding at the end of 2015-16 were as given in **Table 3**.

Table 3: Rent assessed, realised and unrealised (2011-16)

(₹ in lakh)

Sr. No.	Name of ZP	No. of shops	Arrear at the beginning of 2011-12	Revenue assessed (2011-16)	Total revenue recoverable	Revenue realised	Revenue unrecovered
1.	Agra	289	16.99	83.36	100.35	71.81	28.54
2.	Ambedkar Nagar	54	9.95	24.68	34.63	12.06	22.57
3.	Bulandshahar	395	65.78	279.89	345.67	279.89	65.78
4.	Jaunpur	40	0.82	12.00	12.82	11.90	0.92
5.	Mathura	345	18.59	103.65	122.24	64.89	57.35
6.	Sambhal	87	6.33	11.58	17.91	16.10	1.81
7.	Siddharth nagar	202	9.20	48.73	105.35	46.56	11.38
8.	Sonbhadra	176	4.98	39.94	44.92	36.57	8.35
9.	Unnao	353	10.83	27.76	90.42	22.94	15.64
Total			143.47	631.59	874.31	562.72	212.34

(Source: Concerned ZP)

It may be seen from the **Table 3** that outstanding arrears at the beginning of 2011-12 was ₹1.43 crore which increased to ₹2.12 crore by the end of 2015-16. Of the total amount of rent to be recovered (₹8.74 crore) during 2011-16, ZPs recovered ₹5.63 crore (64 per cent) only which resulted in increase in unrecovered rent (₹2.12 crore) as on March 2016.

The State Government stated that efforts are being taken to recover the outstanding dues.

License fee

Rate of license fee not revised since 1999. Its proposal in 2011 was neither denied nor approved and consequently, two ZPs suffered loss of revenue of ₹3.81 crore during 2011-16.

License fee for controlling commercial and industrial activities was being recovered by test checked 10 ZPs. ZP Unnao and ZP Jaunpur prepared Bye-laws in 2011-12 for enhancing rate of license fee for industrial and commercial units which were not revised since 1999 and 2005 respectively. After adopting due procedure,¹² the Bye-laws were submitted in July 2012 to appropriate authorities (Commissioner, Lucknow region and Varanasi region respectively) for according their approvals. But the proposals were pending with them as of June 2016. The Commissioner, Lucknow region, stated that the approval on the Bye-laws was not accorded as guidelines in this regard from Principal Secretary, *Panchayati Raj* were not received. However, necessary instructions (December 2004) of the Principal Secretary, *Panchayati Raj* already existed. Thus, due to indecisiveness of the competent authorities, ZP Jaunpur and ZP Unnao suffered potential loss of revenue of ₹3.81 crore (ZP Jaunpur ₹2.74 crore and ZP Unnao ₹1.07 crore).

¹² viz., approval of the Bye-laws in the meeting of *Zila Panchayat*, publication of the Bye-laws in newspapers etc.

Rate of license fee for Commercial and Industrial units was not revised by ZP Mathura since 1998. It had, however, proposed revision of rates in 2004 but the concerned Commissioner did not approve it as of June 2016. The rate of license fee for controlling bricks, tiles, *Khapara and Surkhi Bhatthi* makers in ZP Siddharthanagar was prevailing since 1993. The rate of license fee for commercial activities was also not revised since 1987.

Advertisement tax

ZP Unnao prepared Bye-laws under the Act in 2011-12 for enforcing advertisement tax on hoardings, advertisement bills on walls and other advertisement material. It prescribed different rates for advertisements on different roads on the basis of per square feet for hoardings, monthly fee for *Kayas* and annual fee for advertisement on wall. Potential annual revenue was, however, not assessed by the ZP. The Bye-laws submitted to the Commissioner Lucknow region in July 2009 was pending as of June 2016.

Fee for approval of maps of Commercial premises

ZP Unnao prepared Bye-laws under the Act in 2011-12 for enforcing approval of maps of commercial houses developed in rural areas of the district and submitted to the Commissioner Lucknow region in May 2012. But it was not approved. Meanwhile ZP submitted revised Bye-laws in June 2015 which were also not approved. As a result, the annual revenue of ₹30 lakh assessed by ZP was being lost since 2009.

The Commissioner (Unnao) stated that the guidelines on License fee, Advertisement tax and fee for approval of maps of commercial premises were not received from Principal Secretary, *Panchayati Raj*. Reply was not acceptable as the Government vide its orders (December 2004) had empowered the Commissioners for according approval on the Bye-laws.

Revision of rent fee of ZP shops

Bye-laws for controlling rent of land, building and shops in ZP Siddharthanagar were effective since 1994. But since then, the rate of license fee was not revised. Recently, in March 2016, the ZP proposed revision of rates on different items but the same was not finalised as of June 2016. As the rates were not revised, ZP suffered loss of substantial revenue for last two decades.

Government while accepting audit findings stated that concerned officers will be instructed for taking early decisions in all these cases. In Exit Conference a demi official letter in this regard under the signature of Additional Chief Secretary was directed to be issued.

Case Study

Undue favour to a defaulting licensee

ZP Sonbhadra prepared (1994) Bye-laws for charging transportation fee from the vehicles transporting sand, morum, stone grit out of district, from its jurisdictional area. The transportation fee was to be collected by engaging a contractor, selected through auction.

Audit noticed that ZP Sonbhadra awarded (December 2008) a contract to an individual for collecting transportation fee for the period of December 2008 to March 2010. The contract value of ₹ 4.30 crore was to be deposited in *Zila Nidhi* by December 2009. But the contractor deposited ₹ 2.41 crore only and the remaining amount ₹ 1.89 crore was not deposited as of June 2016 stating that he was not being allowed to erect barriers to enable collection of transportation fee. On serving recovery notice by ZP, the contractor filed a writ petition in Hon'ble High Court of Allahabad challenging the Government order (July 2008) banning erection of barriers wherein decision was in favour of ZP. Thereafter, the matter was taken to Supreme Court in which both the parties were directed (September 2011) to resolve the matter amicably. But subsequently, while resolving the matter, the arrear of ₹ 1.89 crore was waived off completely without assigning any reasons and the contract for the year 2012-13 was awarded to him without auction despite his poor performance during 2008-10. Besides, ₹ 53.60 lakh out of ₹ 2.41 crore deposited by the contractor against the contract of 2008-10 was refunded by way of adjustment in the contract of the year 2012-13. The contractor was thus, unduly favoured to the extent of ₹ 2.43 crore (₹ 1.89 crore not paid and ₹ 53.60 lakh refunded).

It was further noticed that ₹1.62 crore out of the contract value of ₹ 3.25 crore for 2012-13 was also pending for recovery as of June 2016.

Specific reply on the audit observation was not furnished by the Government. Thus, the entire amount for which the ZP not only fought the case in different Courts but won the case in Hon'ble High Court also was totally waived off under amicable settlement. In exit conference, the Additional Chief Secretary while directing action against defaulters asked to submit all related documents to him.

Recommendation: To enhance generation of revenue, the State Government/authorities should accord early sanctions to pending Bye-laws and issue necessary instructions to explore revenue generation from available new sources.

2.7.1.2 KPs' resources

Under section 131A of the UP KP ZP Act 1961, KPs are empowered to levy taxes on supply of water, electricity *etc.* subject to the condition that they provide the facilities to the users. Further, they could generate non-tax revenues by making Bye-laws on different activities in their areas.

But it was noticed that during 2011-16, KPs revenue generation from their own resources was nil. This indicated that KPs did not make any efforts to

levy tax and generate resources under their own powers. However, KPs received grants from GoI and the State Government. Details of resources of test checked 26 KPs through different sources during 2011-16 is given in **Appendix 2.3**.

On being pointed out (June 2016), Government in reply stated (February 2017) that strict instructions are being issued to ensure revenue generation as provided under the Act.

2.7.1.3 GPs' resources

During the period 2011-16, total resources of test checked 166 GPs was ₹72.35 crore (**Appendix 2.4**). However, these resources were only from the Government grants received from GoI & GoUP. Audit findings are discussed in succeeding paragraphs.

Audit observed that the GPs had to generate their own resources for which provisions were provided in the Act. Under section 37 (Imposition of taxes and fees) of UP PR Act, GPs were to levy a tax on land revenue at the rate (25 *paise* per 100 *paise* of the land revenue) prescribed in it. They may levy taxes, fees and rates on theater, vehicles plied for hire, *haats*, fairs, animals sold in any market, slaughter-houses, water charges, cleaning private latrines and drains, cleaning and lighting of streets and sanitation, irrigation rate and any other taxes authorised by the State Government.

However, the test checked GPs did not generate any revenue from their own sources illustrated above.

On being pointed out (June 2016), Government in its reply stated (February 2017) that the areas provided under Section 37 of the Act for which GPs were empowered to generate revenue are not being implemented and a proposal for revision/amendment is under consideration of Government.

Transfer of land revenue and royalty

Third SFC recommended transfer of land revenue and royalty by concerned department to the GPs from where these were collected on account of excavation of earth, sand, *morum etc.*, Further, appropriation of fifty *per cent* of entertainment tax among PRIs and local bodies was also recommended by the SFC. The State Government, however, did not implement these recommendations.

Levy of House tax

Third SFC, while suggesting procedure for assessment of House tax prescribed different rates for different kind of houses *viz.*, *Pakka*, *Semi Pakka* and *Kachcha* houses. It assessed annual collection of ₹400 crore by GPs in the State but the same could not be realized as levy of the tax was not made effective by the State Government.

Imposition of permit fee

Permit fee for usage of agricultural land for other than agricultural purposes and for fishing from rivers, water bodies *etc.*, was also recommended by the third SFC but the same was not made applicable by the State Government.

Duty on transfer of immovable assets

On the analogy of Andhra Pradesh, Bihar and Madhya Pradesh, third SFC proposed duty on transfer of immovable assets in rural areas. It assessed an annual collection of ₹250 crore from this duty in the State. But no action was taken by the State Government to enforce duty on transfer of immovable assets.

Government did not furnish specific reply to the above.

Appropriation of revenue to GPs

As per Section 141 of the UP KP & ZP Act 1961, ZPs were to appropriate a portion (determined by the ZPs themselves) of net proceeds of CP tax to GPs. In addition, 50 *per cent* of license fee collected from disposal of dead animals was also to be transferred to GPs as per Government order (March 1987 and May 1997).

Audit noticed that the portion of CP Tax of ₹6.23 crore (***Appendix 2.5***) collected by test checked ZPs during 2011-16 to be transferred to the GPs were not determined by any of the test checked ZPs and as a result it could not be appropriated to GPs. Further, license fee of ₹2.03 crore (50 *per cent* of total collection) out of ₹4.06 crore (***Appendix 2.5***) collected during 2011-16 by the test checked ZPs from disposal of dead animals was also not transferred to their GPs. Concerned PRIs and the Government did not devolve any mechanism to effectively appropriate the tax between ZPs and GPs.

In reply, poor financial status of ZPs and utilisation of funds by ZPs for developmental works in GPs were cited as reasons for not appropriating revenue by ZPs to GPs. Reply is not acceptable as enforcement of the provisions/orders was not ensured.

Recommendations: The State Government should ensure generation of revenue by PRIs as provided under their Act.

2.7.2 Utilisation of resources

Efficient planning, realistic budget formulation, effective expenditure controls, proper accounting of financial transactions, close monitoring of progress and enforcement of accountability are important component of a robust financial management system and are required for effective utilisation of resources. Audit noticed that the planning and financial management in PRIs are generally weak and require strengthening as discussed below:

2.7.2.1 Planning

Planning by Zila Panchayats and Kshetra Panchayats

As per section 63 of the UP KP & ZP Act, a District Development Plan was to be prepared each year covering the subjects pertaining to the UP PR Act and UP KP & ZP Act. The plans prepared by the PRIs were to be consolidated by

ZP for approval of *Zila Panchayat*. GoUP issued instructions in January 2005 and June 2014 that before starting the works, selection of the works would be done as per rules, by approving proposals in meetings of concerned *Panchayat* and that such matter would not be left at the discretion of the Chairman or a few members of the *Panchayat*.

Audit noticed that for utilisation of resources, instead of preparing an annual plan in beginning of the year, the test checked ZPs prepared separate work plans for each installment of CFC and SFC grants (two installments from GoI and two from the State Government in a year). Additionally, annual District Development Plan comprising of plans of KPs was also being consolidated by the ZPs. But in this plan, the works to be done from their own resources including funds from Finance Commission grants were not included. The work plans prepared by test checked 26 KPs of 10 test checked districts were not routed through their Planning Committees but were signed by the *Pramukh* of the concerned KP.

Thus, the directions issued for preparation of the annual plan under the UP KP & ZP Act was not complied with.

In reply Government stated that the annual plans were being prepared by ZPs, however, after receipt of grants, time to time work plans were prepared and approved in ZPs' meetings. Reply is not acceptable as annual plan could not be produced to audit though called for.

Planning by Gram Panchayats

Under section 15-A of the *Panchayati Raj Act 1947*, a *Gram Panchayat* Development Plan was to be prepared every year by each GP and submitted to the *Kshetra Panchayat*. The plan was to be prepared by Planning Committee of the GP and thereafter submitted to *Gram Sabha* for according their sanction.

Audit noticed that the Planning Committees of all the test checked 166 GPs did not prepare the *Gram Panchayat* Development Plan during 2011-16. Thus, the direction issued for preparation of the Annual Development Plan in the *Panchayati Raj Act 1947* was not complied by the test checked GPs.

Government replied that the action is being taken for the preparation of *Gram Panchayat* Development Plan.

Recommendation: The State Government should ensure proper planning by the PRIs prior to the execution of works.

2.7.2.2 Financial management

PRIs in the State collected revenue through own sources and received grants from GoI and the State Government under the recommendations of Finance Commissions. Details of revenue collected, grants released and utilised as reported by Directorate of *Panchayati Raj* during 2011-16 and comments on

utilisation certificate submitted are given in Chapter I of this Report. Audit findings in respect of test checked PRIs are discussed in succeeding paragraphs.

Financial status of ZPs/KPs & GPs

Total resources during 2011-16 with test checked ZPs, KPs and GPs, the resources utilised and the unspent funds as on 31 March 2016 are given in **Appendix 2.6, 2.3 and 2.4** respectively.

During 2011-16, test checked ZPs spent a sum of ₹862.44 crore out of the available resources of ₹1,019.29 crore leaving a balance of ₹151.99 crore. The unspent balance (₹34.71 crore) of March 2011 increased more than three times (337 per cent) within a period of five years.

Likewise, during 2011-16, test checked KPs spent a sum of ₹84.93 crore out of available resources of ₹95.49 crore leaving a balance of ₹ 10.57 crore at the end of March 2016. The unspent balance at the end of March 2011 (₹4.52 crore) increased to 133 per cent).

Similarly, test checked GPs spent only ₹62.09 crore out of available funds of ₹72.35 crore which resulted in balance of funds of ₹10.26 crore at the end of March 2016. The unspent balance (₹3.26 crore) of March 2011 increased more than two times (214 per cent).

In reply, it was stated that the release of grants in last month of the financial year was the reason for unspent balances. However, timely release of grants was to be ensured by the Government itself.

Preparation of annual budget

Section 115 of UP KP & ZP Act prescribes preparation and passing of budget by KPs. Section 116 of the Act allowed drawal of funds by KPs up to the limit prescribed in passed budget. Likewise, Section 41 of the UP PR Act and Rule 219 of UP PR Manual prescribe procedure for preparation and passing annual budget of GP. In case it is not prepared and passed by GP, it was to be prepared by designated Officer of its KP (Assistant Development Officer) and if the budget prepared by the Officer of the KP was not passed by the GP, on 1 February, it would be treated as passed. Section 32 allowed utilisation of funds from *Gram Nidhi* up to the limit prescribed in passed budget.

Audit noticed that the budgets which provided authority and prescribe limit for drawing funds from *Kshetra Nidhi* and *Gram Nidhi* were not prepared and passed by the test checked 26 KPs and 166 GPs. The designated Officers also did not prepare the budget of the GPs. Without having budgetary authority and observing any financial limit, the concerned *Pramukh* of the KPs and *Pradhan* of the GPs and their secretaries of the test checked 26 KPs and 166 GPs drew a sum of ₹ 84.93 crore and ₹ 62.09 crore out of available funds of ₹ 95.49 crore and ₹ 72.35 crore from their *Kshetra Nidhi* and *Gram Nidhi* respectively during 2011-16 (**Appendix 2.3** and **Appendix 2.4**).

Thus, the test checked KPs and GPs not only violated the mandatory procedure for drawing money from their *Nidhis* but also requisite transparency in sanctioning and incurring expenditure from their *Nidhis* was not maintained.

Government while accepting the audit findings stated that necessary instructions for compliance of the provision of the Act have since been issued.

Recommendations: Financial management at all the three tiers PRIs should be tightened not only to avoid risk of embezzlement but also to pinpoint the lapses. This requires release of subsequent installments of grants after actual utilisation of the previous grants and drawl of funds from their Nidhis, only after preparation and passing of annual budget by PRIs.

2.7.2.3 Execution of works

While providing basic services, PRIs execute works related to construction of roads, culverts, street lights, drinking water, drainages *etc.* Details of works executed in test checked ZPs, KPs and GPs and expenditure thereof are given in **Appendix 2.7, 2.8 and 2.9** respectively. These works were to be taken up on tender basis as per the rules and procedures prescribed in UP KP & ZP *Nirman Niyamavali*, 1984. Further, GPs were to adhere to the procedures prescribed in *Gram Panchayat Lekha Manual*. Various deficiencies *viz.*, irregularities in tender processing, construction of *intra* GP works by ZPs, short levy of compensation for delayed completion of works *etc.*, noticed in audit are discussed in succeeding paragraphs.

Zila Panchayats

Irregularities in execution of road works

Most of the expenditure by test checked ZPs was on construction of roads. During 2011-16, the expenditure on construction and maintenance of roads was ₹ 646.09 crore and on upkeep and maintenance of other basic facilities such as culverts, street lights, drinking water, drainage *etc.* the expenditure was ₹9.97 crore (1.54 *per cent*) only (**Appendix 2.7**). The following irregularities were noticed in execution of these works.

- Test checked ZPs did not categorise roads though required under the Act. As a result, it could not be confirmed that the roads constructed/maintained by the ZPs were *intra* KP roads and were due to be constructed/maintained by concerned ZPs. To eliminate duplicity of works by the three tier PRIs, the State Government issued directives in January 2005, June 2014 and reiterated the directives in June and July 2015 for execution of works by PRIs on subsidiarity basis *i.e.* GPs were to work within their area, *intra* GP works were to be done by KPs and *intra* KP works by ZPs. In test check of audit, it was noticed that during 2011-16, the test checked ZPs undertook various *intra* GP road works *viz.*, construction of cement concrete roads, *Kharanja* road, soling works, interlocking works *etc.* to the tune of

₹ 394.14 crore (61 *per cent*) during 2011-16 (**Appendix 2.10**). Thus, the ZPs executed *intra* GP works which was not permissible.

- Audit noticed that mapping of roads was not done due to which, actual existence and length of roads constructed/maintained could not be verified in audit.
- Road register was not maintained consequently, history of the roads constructed/maintained was not known. As a result, previous maintenance of the road and cyclic of eight year maintenance could not be checked in audit.
- Asset register was also not maintained. Therefore, details of roads on which investment was made, was not on record.

The State Government did not furnish specific replies on violation of different provisions and orders issued.

Deficiency in tender processing

Strict adherence to the rules and procedures not only avoid chances of malpractices but ensure requisite transparency in the system.

Audit noticed that many of the test checked ZPs did not adhere to various provision of UP KP & ZP *Nirman Niyamavali*, 1984 while tender processing. In test checked ZPs, five tender files of each year for 2011-16 were examined in audit. Irregularities relating to work estimates, tender notices, tender documents, tender opening, tendered rates, processing the tenders, placing work orders, making agreements and security/performance guarantee noticed are summarised in **Appendix 2.11**.

Short deduction of penalty

As per GFR, time is the essence of any contract. In the event of delay in completion of works under the contract, compensation equal to one *per cent* of the estimated cost of the whole work for every day that the quantity of work remains incomplete was to be recovered from the bills of the contractors as per Uttar Pradesh KP and ZP *Nirman Niyamavali*, 1984. However, discretion to decide the amount of penalty was vested with AMA of ZP. Rules further provided that the entire amount of compensation to be paid under the provision of this clause shall not exceed ten *per cent* on the estimated cost of the work shown in the tender.

Audit noticed that stage wise progress of the works was not monitored, as a result of which various works executed during 2011-16 in test checked 07 ZPs were completed with delay. However, it was noticed that the ZPs either did not charge penalty at all or charged partially in violation of the terms of the contracts. An attempt by Audit to work out the amount of penalty in a few cases on estimated value of works executed during 2011-16 is detailed in **Table 4**.

Table 4: ZP wise details of penalty not deducted

(₹ in lakh)

Sl. No.	Name of ZP	Year	No. of works	Estimated cost of works executed	Penalty short deducted
1.	Agra	2012-16	7	60.56	6.05
2.	Ambedkar Nagar	2011-16	7	89.00	8.90
3.	Bulandshahar	2014-16	3	20.50	2.05
4.	Jaunpur	2012-16	9	228.48	21.18
5.	Shravasti	2012-16	191	1316.50	131.52
6.	Sonbhadra	2013-16	22	817.63	8.17
7.	Unnao	2011-16	184	4582.00	450.00
Total			423	7114.67	627.87

(Source: Concerned ZP)

Government in its reply stated that the deduction of penalty was made as per the provisions of the *Niyamavali*. Reply is not convincing as due penalties were not deducted and discretion for reduction of penalty was used arbitrarily implying undue favour to contractors.

Maintenance of link roads

Prior to 2013, the State of Uttar Pradesh did not have comprehensive policy for maintenance of the link roads. The State Government introduced (November 2013) Uttar Pradesh Gram *Sampark Marg Anurakshan Niti*, 2013. Regular cyclic maintenance of *Sampark Marg* (link roads) in accordance with the established standards and specifications was the main objective of the policy. Major criteria for maintenance of link roads *viz.*, ownership of the roads, liability of maintenance of the roads, maintenance under special conditions, taking NOC from the concerned department, maintenance as per maintenance manual of the public works department, surface renewal after a cycle of eight years *etc.* were illustrated in the policy. In order to avoid duplicate maintenance of the roads, the concerned department was to inform the road maintained to the Provincial Division of Public Works Department (the nodal department at the district level). Inventory of the roads were to be kept electronically by all the departments and updated time to time. However, the policy excluded the roads constructed under *Pradhan Mantri Gramin Sarak Yojana*.

Audit noticed that the test checked six ZPs maintained 91 different link roads and spent ₹ 8.83 crore during 2014-16 as given in **Table 5**.

Table 5: ZP wise details of roads maintained

(₹ in crore)

Sl. No.	Name of ZP	Period of maintenance of roads	No. of roads maintained	Amount spent
1.	Agra	2015-16	10	0.75
2.	Bulandshahar	2015-16	6	1.02
3.	Jaunpur	2015-16	9	1.66
4.	Mathura	2014-15	18	1.55
5.	Sonbhadra	2014-15	26	2.29
6.	Unnao	2014-15	22	1.56
Total			91	8.83

(Source: Audit scrutiny)

Though the ZPs spent substantial funds on link roads, details as required under the policy mentioned above were not maintained. In absence of requisite information on records, the maintenance done at the cost of ₹8.83 crore could not be verified in audit.

Government stated that a committee at district level was to be set up for implementation of the Maintenance Policy 2013 and that the policy will be implemented in future.

Recommendation: The Government should enforce the various provisions of the Nirman Niyamavali, its orders and the policies decided by it.

Kshetra Panchayats

Minor expenditure on maintenance of own assets

The State Government issued (September 2010) guidelines for expenditure out of SFC grants. Accordingly, 50 *per cent* of the grant was to be spent by the KPs on maintenance of its assets and the assets transferred to it *viz.*, Primary Health Centre, Veterinary Hospital, *Krishi Raksha Kendra*, Seed Distribution Stores *etc.*

Audit noticed that during 2011-16, the test checked KPs spent SFC grants of ₹60.47 crore (***Appendix 2.3***) on execution of various works. Accordingly, as required, an expenditure of ₹30.23 crore was to be incurred on maintenance of own assets. But only ₹4.81 crore (eight *per cent*) was spent on maintenance of own assets or assets transferred to the test checked KPs.

Specific reply on the audit observation was not furnished by the Government.

Gram Panchayats

Execution of works

GP is an executive organ of *Gram Sabha*. Main functions of GPs are to manage local affairs and promote village development with the help of available local resources and Government assistance, both financial and technical. The function of the *Nirman Karya Samiti* of GP is to execute works and ensure quality of works executed.

Gram Panchayat Lekha Manual prescribes (2001) procedure for purchase of material and execution of works. According to these provisions, purchases above ₹2,500 and up to ₹15,000 were to be made on quotation basis and above ₹15,000 on tender basis. However, as per State Government order (September 2008), purchases above ₹20,000 were to be made on quotations and above ₹1,00,000 on tender basis. For execution of works/purchase of material, GPs were to prepare estimates of the works to be executed, take administrative and technical sanctions on each work, invite quotations/tenders as the case may be, execute contract agreements incorporating requisite terms and conditions of the contract, obtain approval of the Works Committee, measure supplies made or works carried out, maintain stock receipt and issue accounts, make payments through cheques issued with joint signature of *Gram Pradhan* and *Gram Vikas/Panchayat Adhikari* and prepare work completion report.

Audit noticed that during 2011-16, test checked 166 GPs incurred an expenditure of ₹62.09 crore (**Appendix 2.4**) for executing works and taking supplies without adhering to the prescribed procedures illustrated above except for making payments through cheques issued with joint signature of *Gram Pradhan* and *Gram Vikas/Panchayat Adhikari*. Approval of *Nirman Karya Samiti* on the works executed/supply received were not obtained and payments to labourers were made in cash indicating signatures or thumb impression on muster rolls arranged through own sources without having control numbers on them. Since signatures for approval on the bills and cheques drawn for making payment were done by the same person *i.e.* the *Gram Pradhan*, possibility of fraudulent drawal of cheques could not be ruled out.

Audit noticed that during 2011-16, the test checked 166 GPs purchased different construction material amounting to ₹17.00 crore without calling quotations/tenders. Many purchase bills/vouchers were without Tax Identification Number (TIN) and without book/serial number. Bills having continuous bill numbers of different dates were available with the same GP. Many of these bills were paid in cash without having receipts for the payments made. Deduction of statutory taxes was not in practice.

Various records prescribed in *Gram Panchayat Lekha Manual viz.,* Pass book, Demand and recovery register, Security register, Public works register, Muster roll register, Stock Book *etc.* not maintained by GPs are listed in **Appendix 2.12**. Absence of records and deficiencies in adhering various procedures indicated poor internal control/check. The authenticity of the purchases and payments made could not be verified and vouchsafed in audit.

Government while accepting the audit findings stated that the necessary instructions have been issued for compliance of the purchase procedures. Reply is not acceptable as deficiencies as pointed out still persisted and strict financial and accounting control over the PRIs was not being exercised.

Execution of works of inferior quality

In physical verification of works by Audit, the quality of interlocking works executed by GPs was found to be inferior. The bad quality broken interlocking roads constructed by two GPs and relatively better quality interlocking road constructed by a KP can be seen in the photographs below.



Lack of technical knowhow and technical support by KPs/ZPs were some of the reasons for poor quality of works by the GPs.

Government while accepting the audit findings stated that necessary records will be maintained and instructions have been issued to rectify the interlocking and usage of good quality bricks.

Maintenance of hand pumps

Ensuring water availability to the villages is one of the basic facilities to be provided. For providing this facility, hand pumps installed in villages are required to be maintained from time to time.

During 2011-16, test checked 166 GPs spent a sum of ₹3.83 crore on repair/maintenance of 13,961 hand pumps as given in **Table 6**.

Table 6: Expenditure incurred on maintenance of hand pumps

(₹ in lakh)

Sl. No.	Name of District	No of KPs	No of GPs	No of hand pumps repaired	Payment made
1.	Agra	3	13	1,422	42.00
2.	Ambedkar Nagar	2	15	901	25.09
3.	Bulandshahar	3	14	274	7.90
4.	Jaunpur	4	33	3,759	107.06
5.	Mathura	2	12	1,507	29.67
6.	Sambhal	2	16	184	5.85
7.	Shravasti	2	14	1,203	18.84
8.	Siddharth nagar	3	20	267	7.59
9.	Sonbhadra	2	14	3,270	112.14
10.	Unnao	3	15	1,174	27.34
Total		26	166	13,961	383.48

(Source: Concerned GP)

Audit noticed that the test checked GPs did not maintain any records for verifying whether the payments were genuine. As a result, the expenditure incurred on the maintenance of hand pumps could not be verified in audit.

Government while accepting the audit findings stated that the necessary instructions to maintain the records will be issued.

Recommendation: The Government and the GPs should ensure compliance of various office procedures to avoid misappropriation of funds.

2.7.2.4 Monitoring

Monitoring is essential for ensuring timely provision of qualitative basic services. It was to be done at all levels with special emphasis on quality and time. *Zila Panchayat* Monitoring Cell, Lucknow was set up at State level under Principal Secretary, *Panchayati Raj* for day-to-day monitoring of the activities of ZPs.

Audit noticed that ZPMC did not monitor ZPs resources and their utilisation properly which caused short billings, revenue arrears, balance of grants, utilisation of grants on ineligible *intra* GP works, not adherence to Maintenance Policy 2013 and not submitting utilisation certificates by test checked ZPs.

Compliance of the manual/guidelines issued time to time was not ensured at the appropriate level as a result of which various provisions of the guidelines *viz.*, maintenance of records, adhering purchase/works procedures, utilisation of grants on maintenance of own assets, *etc.* were not complied with. Further, inspections of the works carried out by test checked GPs prescribed in UP KP & GP (Supervision of works) *Niyamawali* 1963 were not being done.

Specific replies were not furnished on various audit findings.

Recommendations: The State Government should ensure robust system of monitoring and internal control/check.

2.8 Conclusion

The revenue realized (₹898.74 crore) by PRIs from their own sources compared to their total resources (₹30,696.07 crore) of 2011-16 was insignificant (three *per cent*). Over the period of 2011-16, major resources (97 *per cent*) of PRIs' in the State were the grants (₹29,797.33 crore) received from GoI and the State Government indicating, absolute dependence on grants for their activities and not exploring new sources of revenue.

Indecisiveness of the State Government and State authorities resulted in potential revenue sources not being tapped and enhancement of existing revenue sources not being done in ZPs, while KPs and GPs hardly contributed in revenue generation through own sources. Moreover, mechanism of transfer of grants was not prompt and accounting systems were found to be missing in exercising basic checks. Planning was not being done as envisaged. Financial management was improper and utilisation of funds too was with the risk of misappropriation due to absence of records. Various records were not maintained and proper procedures were not being followed. Monitoring and internal controls were weak which caused persistence of various systemic deficiencies.