

## **CHAPTER-II**

### **PERFORMANCE REVIEW ON ASSETS MANAGEMENT BY PACHAYATI RAJ INSTITUTIONS**

#### **2.1 Asset Management by Panchayati Raj Institutions**

##### **2.1.1 Highlights**

The assets owned by Panchayati Raj Institutions (PRIs) include movable and immovable assets, remunerative and non-remunerative assets, acquired or created by them from time to time. Panchayati Raj Institutions acquire/create assets as per their requirement and availability of funds. Besides, specific assets are also acquired/ created out of grants received from Government of India. The Asset Management includes planning and decision making in creation or acquisition of assets, proper accounting of assets, utilization of assets, maintenance of assets and disposal of obsolete assets. Laxity in these areas is fraught with the risk of public funds invested on assets becoming unfruitful. Some of significant points noticed are given in succeeding paragraphs.

- In 13 PSs, 97 Panchayat Ghars for which ` 2.30 crore were sanctioned between 2005-09 had not been constructed as of January 2010.

(Paragaraph-2.3.3)

- Zila Parishad Bhawan Shimla had not been started has of December 2009 despite ` 54 lakh were placed at the disposal of H.P.P.W.D. in June 2008.

(Paragaraph-2.3.4)

- Seventy community centers constructed at a cost of ` 0.53 crore between 1998-99 and 2008-09 were being used by the public free of cost and had not augmented the income of PRIs.

(Paragaraph-2.3.5)

- The Internal control system relating to assets management available in the PRIs was not effective as annual physical verification was not being done. The assets registers were either not maintained or incomplete.

(Paragaraph-2.6)

### **2.1.2 Audit Objectives**

The audit objectives were to examine whether;

- the acquisition or creation of assets was properly planned and executed.
- all the assets owned by PRIs were properly documented.
- the assets were properly utilized for the intended purpose.
- there was a system for the up keep and periodical maintenance of assets ,
- there were losses, system deficiencies and lacunae in assets management.

### **2.1.3 Audit Criteria:**

The criteria used to assess the effectiveness of the Panchayati Raj Institutions in asset management were;

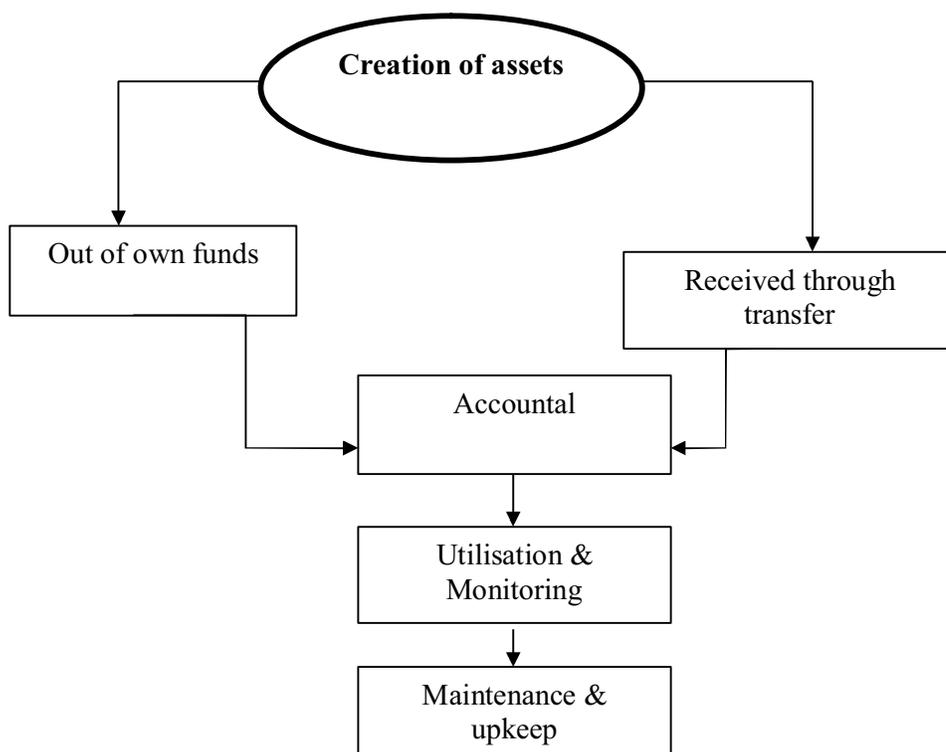
- Guidelines issued by the Government and reports of Panchayati Raj Institutions .
- Provisions of HP Panchayati Raj Act, 1994.
- Norms fixed for upkeep and maintenance of assets.

### **2.1.4 Audit methodology and scope**

Performance audit of the asset management by the Panchayati Raj Institutions covering the period 2004-05 to 2008-09 was conducted during October 2009 to January 2010. Three out of 12 districts were selected for audit scrutiny. Shimla District has been selected being capital district. Kangra and Mandi districts were selected on the basis of population. In the selected districts, three Zila Parishad (ZPs), sixteen Panchayat Samities (PS)<sup>7</sup> and seventy eight Gram Panchayats (GPs) (**Appendix-6**) (total 97 PRIs) were selected for test-check besides information supplied by the Director (PRI). The flow chart showing the components of asset management is given below:-

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<sup>7</sup> Baijnath, Basantpur, Balh, Chauntra, Chopal, Dehra, Kangra, Lambagaon, Mandi Sadar, Nagrota Bagwan, Nurpur, Panchrukhi, Rampur, Sarkaghat, Sundernagar, & Theog.



## 2.2 Financial profile

Separate funds were not allotted/earmarked for the creation and maintenance of assets in the state except provisions made during 2008-09 for maintenance of assets by PRIs. The assets were being created and maintained out of funds made available to PRI under centrally sponsored and state sponsored schemes and their own resources. An expenditure of ` 355.90 crore was incurred by the Secretary (P&RD) during 2004-09 for implementation of various schemes through Panchayati Raj Institutions as under:-

(` in crore)

Year	Funds available	Expenditure
2004-05	35.69	35.69
2005-06	47.70	47.70
2006-07	69.37	69.37
2007-08	101.04	101.04
2008-09	102.10	102.10
<b>Total</b>	<b>355.90</b>	<b>355.90</b>

(Source: Departmental figures)

The position of funds available and expenditure incurred for creation of assets by 97 PRIs test checked during 2004-09 was as under:-

(` in crore)

Sr. No.	Year	Funds available	Expenditure incurred	Expenditure incurred on asset creation	Percentage of total expenditure
1	2004-05	7.40	5.76	2.53	43.84%
2	2005-06	8.52	7.29	2.45	33.65%
3	2006-07	11.75	9.27	2.69	28.99%
4	2007-08	14.96	12.12	6.40	52.84%
5	2008-09	23.04	18.05	10.88	60.26%
<b>Total</b>		<b>65.67</b>	<b>52.49</b>	<b>24.95</b>	<b>47.53%</b>

(Source: Departmental figures)

It would be evident from the above that the percentage of expenditure on asset creation was between 29 and 60 of the total expenditure.

### **2.2.1 Non implementation of recommendations of State Finance Commission (SFC).**

The State Finance Commission (SFC) had recommended for making the provision of expenditure for the maintenance of assets by PRIs but no provision had been made during 2004-05 to 2007-08 as under:-

(` in crore)

Year	Provision recommended	Provision made for maintenance of assets
2004-05	41.83	-
2005-06	44.59	-
2006-07	47.53	-
2007-08	-	-
2008-09	7.30	7.30

Reasons for not making provision for maintenance of assets during 2004-05 to 2006-07 were not intimated. Non-maintenance of assets may lead to their deterioration with the passage of time.

## **2.3 Creation, Acquisition and Utilisation of Assets**

### **2.3.1 Planning**

Acquisition of assets involves sizable investment for which project specific business plans have to be prepared for timely completion of the project for

deriving optimal intended benefits. Assets intended to be acquired or created by local bodies should be commensurate with the immediate and long term requirement.

It was noticed in audit that no policy for formulation of long/short term planning for creation, periodical counting, monitoring and maintenance of assets had been prepared by the State Government in respect of Panchayati Raj Institutions. In the absence of any policy, the PRIs had been creating assets according to their own requirement keeping in view the availability of funds.

### **2.3.2 Status of Assets**

In 79 PRIs test-checked 4201 assets valued at `7.64 crore (**Appendix-7**) were created from 1967-68 to 2003-04 of which 3038 assets valued `6.87 crore were being utilized, the status of 767 assets valuing of `0.48 crore were not known to concerned Gram Panchayats and remaining 396 assets valuing `0.29 crore were not in use. In the absence of any monitoring the utility of assets valued at `0.77 crore (`0.48 crore & `0.29 crore) and could not be verified in audit as no reasons for non-utilisation of assets were advanced by concerned PRIs.

### **2.3.3 Non-completion of Panchayat Ghars**

During 2005-06 `5.08 crore were sanctioned for the construction of 210 Panchayat Ghars in 13 Panchayat Samities of Shimla, Kangra and Mandi districts by the concerned District Panchayat Officers. The construction works were required to be completed within one year. It was noticed that 70 Panchayat Ghars valued at `1.74 crore were completed and 97 Panchayat Ghars for which funds of `2.30 crore were sanctioned had not been completed as of January 2010. Construction of the remaining 43 Panchayat ghars (sanctioned funds: `1.05 crore) had not been started as of January 2010 as detailed in (**Appendix- 8**).

This resulted in blocking of funds of `1.05 crore and expenditure of `2.30 crore incurred on incomplete Panchayat Ghars had remained unfruitful. The concerned PRIs stated (October 2009 to Jan 2010) that these works could not be started due to non finalization of sites and non execution of agreements by

the Panchayats. Thus due to non finalization of agreements by the concerned Gram Panchayats resulted in blockade of funds of ` 1.05 crore.

#### **2.3.4 Non construction of Zila Parishad Bhawan Shimla resulting in blocking of funds of ` 54.00 Lakh**

Administrative Approval and Expenditure Sanction (AA&ES) for construction of four storied Zila Parishad Bhawan at Sanjauli, Shimla was accorded (September 1997) for ` 25.00 lakh. Funds of ` 25.00 Lakh were released between 1997-98 and 2001-02 to ZP Shimla. Rupees 29.00 lakh were also released (March 2007) for the construction of the residence of District Panchayat Officer (DPO).

Scrutiny of records (October, 2008) revealed that land at Sanjauli, was got transferred (March 1998) in the name of Panchayati Raj (PR) department for the construction of the Zila Parishad Bhawan. The case for finalization of drawings was taken up (1998) with Town & Country Planning Department (TCP). As the site was very steep and sensitive from traffic point of view, the Restricted Area Committee (RAC) of TCP rejected (March 2004) the site for the proposed construction. It was further noticed that new site near RTO office at Shimla was selected (September 2005) and an amount of ` 2.48 lakh was paid (May 2007) to Forest department for diversion of land for non forestry purpose. An estimate for ` 1.16 crore was got prepared (July 2007) from Public works Department for the construction of Zila Parishad Bhawan inclusive of provision for residence of District Panchayat officer and Chairman of Zila Parishad and revised AA&ES for the same amount was accorded (September 2008) by the Secretary, Zila Parishad.

Though funds of ` 54.00 lakh were placed (June 2008) at the disposal of Public Works Department for constructing Zila Parishad Bhawan, the work had not been started as of December 2009 due to non completion of codal formalities. This resulted in blocking of funds and accrual of intended benefits. Convincing reply was not furnished by Zila Parishad authorities.

#### **2.3.5 Utilisation of assets without charges**

The PRIs have been providing facilities to the villages/towns by way of community centers in various Gram Panchayats.

Scrutiny of records of 33 PRIs (out of 97 PRIs test checked) revealed that 70 Community Centers constructed between 1998-99 and 2008-09 at a cost of ` 0.53 crore (**Appendix-9**) were being used by the public free of cost since their construction. No charges for their use have been fixed by the concerned GPs whereas expenditure on electricity, water charges and scavenging etc. is being met by the GPs. Specific instructions regarding rate of fees to be charged for use of community centers should have been issued by the Govt. to ensure uniformity in the rates.

### **2.3.6 Non realization of rent**

The PRIs have been maintaining shops and these are leased out on monthly rental basis to increase their own income.

Scrutiny of records in 15 PS (**Appendix-10**) test checked revealed that an amount of ` 32.30 lakh was outstanding from various tenants on account of rent of shops as of March 2009. The outstanding rent ranging between ` 40 and 3000 per month per shop pertains to the period from 1992-93 onward in many cases. Non recovery of rent has deprived the concerned PRIs from revenue to the extent of ` 32.30 lakh which could have been utilised for developmental works. No specific reasons were advanced for non recovery of rent.

### **2.3.7 Non-Revision of rent of shops-Loss of revenue**

As per policy the rent of shops/stalls rented out is required to be revised @ 10% after every five years by the concerned PRIs.

Scrutiny of records of 17 GPs/PS revealed that the rent of 232 shops had not been revised as per condition of the agreement. Non revision of rent has resulted into loss of revenue of ` 08.86 lakh (**Appendix-11**) as of March 2009. While no cogent reasons for non revision of rent were advanced, the concerned GPs/PS stated that matter for revision of rent will be placed before the elected house. The replies were not tenable as non revision of rent since long has deprived the PRIs from recurring loss of revenue which could have been utilized for other developmental works.

### 2.3.8 Non-allotment of shops-loss of revenue

Scrutiny of records of Panchayat Samiti Dehra revealed that 44 shops were constructed in 1998 at Jawalamukhi at a cost of ` 20.03 lakh. Out of 44 shops 26 shops were allotted (23 shops in 1998 & 3 shops in 2005) but 18 shops constructed in 1998 were lying unallotted as on March 2010, for want of decision committee constituted to allot the shops. The Additional Commissioner Kangra while disposing off the complaint received from shopkeepers of Jawalamukhi shopping complex had directed (07-04-2004) the Chairperson Panchayat Samiti Dehra, E.O. PS Dehra & SDM Dehra to auction the remaining 18 shops so that PS Dehra could benefit from the rent which would accrue from the shops but no action had been taken to put these shops into auction so far. Thus non-allotment of shops has not only rendered the expenditure of ` 8.20 lakh (approximately) as unfruitful but the PS Dehra has also been deprived the revenue of ` 23.76 lakh by taking into account average amount of ` 1000/- per month per shop. The EO stated (January 2010) that the shops could not be allotted for want of decision by the committee constituted for the purpose and matter will be taken up with SDM Dehra for early decision/meeting for conducting auction of shops.

Thus non allotment of shops has rendered the expenditure of ` 20 lakh as unfruitful besides loss of revenue of ` 25.33 lakh to PS Dehra which could have been derived for allotment of these shops.

### 2.3.9 Irregular reduction of rent

Scrutiny of records of PS Panchrukhi revealed that 13 shops constructed (1991 to 2001) at a cost of ` 3.63 lakh were allotted as under:-

( ` .in lakh)

Str. No.	Name S/sh.	Date of allotment	Rent fixed/agreed ` P.M	Reduced Rent P.M w.e.f. 1.4.2001	Loss from 01-04-2001 to 31-03-09
1	Kulvinder	1.2.1991	400	200	0.19
2	Piyar Chand	1.11.1991	450	225	0.22
3	Lajwant Singh	1.2.1991	400	200	0.19
4	Parbhat Singh Chandel	1.11.1991	400	200	0.19

5	Vinod Awasthi	1.4.2001	450	225	0.22
6	Lekh Raj	1.2.1991	400	200	0.19
7	Suman Kumari	1.4.2001	400	200	0.19
8	Paryag Raj	2.1.1991	400	200	0.19
9	Joginder Singh	1.4.2001	450	225	0.22
10	Parbahat Chand	1.4.1991	450	225	0.22
11	Mohinder Singh	1.11.1991	450	225	0.22
12	Krishan Kumar	2.1.1991	400	200	0.19
13	Parvithi Raj	1.2.1991	400	200	0.19
				<b>Total</b>	<b>2.62</b>

These shops were allotted in between 1991 to 2001 initially for one year at a monthly rent of ` 400/- to ` 450/- by Executive Officer Panchrukhi. After execution of lease deed the resolution was passed (July, 2005) to reduce the rent to 50% of total rent w.e.f. 1.4.2001. The resolution of house to reduce the rent was irregular because as per Agreements entered into with the tenants, the rent should be revised/enhanced after five years. This results in loss of revenue of ` 2.62 Lakh upto March, 2009. The EO, PS Panchrukhi stated that approval of the Director, Panchayati Raj Himachal Pradesh to reduce the rent would be obtained. The approval is still (Oct 2010) is awaited.

## **2.4 Asset accounting**

The assets are acquired/created with certain specific objectives. To ensure that the objectives have been achieved, proper up-keep, maintenance, timely disposal and replacement are necessary for which proper accounting of the asset is required. Periodical verification of assets is an important process in assets management for which proper records are to be kept. Following observations were made during scrutiny of records relating to assets accounting.

### **2.4.1 Non maintenance of Asset register**

Rule 34 of Himachal Pradesh Panchayati Raj General Rule 1997 provide for maintenance of asset register of all immovable properties of which PRIs is the proprietor, or which vests in it, or which it holds in trust for the State Government.

It was noticed that none of the test checked PRIs maintained the Asset register of all immovable properties. Hence the exact position of creation of assets could not be verified. The concerned PRIs stated that the requisite register would be maintained in future

#### **2.4.2 Non conducting of physical verification of created assets**

It was noticed that none of the test checked PRIs had conducted the periodical physical verification of assets as required. In the absence of physical verification the status of assets could not thus be verified in audit. The concerned PRIs stated that the verification would be conducted in future.

#### **2.5 Internal Control System**

Rule 34 of Himachal Panchayati Raj General Rules 1997 provide that Register for Developmental Works and Register of Immoveable property is to be maintained by the GPs in form 2 and form 11 respectively. Though there is provision in Himachal Pradesh Panchayati Raj (Finance, Budget Accounts, Audit, Works, Taxation and Allowances) Rules, 2002 for physical verification of stock, no provision exist for physical verification of assets/ immoveable property.

Thus the internal control system relating to asset management available in the PRIs was not effective. In none of PRIs test-checked was annual physical stock verification done, as a result of which the PRIs could not ensure whether all the assets accounted for in the Stock Register/Assets Register were physically available and vice versa. Encroachment of landed property, non-maintenance of movable as well as immovable assts, improper utilization/non utilization of assets, etc. were attributable to the weak internal control system. Incomplete non- maintenance of Asset Register was again an internal control failure which may lead to loss and non maintenance of assets.

#### **2.6 Monitoring**

The department should have prescribed a detailed monitoring system to ensure upkeep and timely maintenance of assets in the PRIs. It was however, noticed that no such system had been evolved as a result of which the track of assets created or transferred could not be kept properly leading to non utilization or loss of assets. No register and records were kept to enable the PRIs to ensure

optimum utilization of assets. Also no periodical review of the performance of the assets was conducted.

## **2.7 Conclusion**

- The acquisition and creation of assets was not properly planned. This resulted in dead investment of capital which could have been utilized for other productive purposes.
- The documentation and accounting of the assets acquired/ created/ transferred from the Government was incomplete, indicating weak and ineffective internal controls system.
- The utilization of assets was not satisfactory resulting in idle capital investment.

## **2.8 Recommendation**

- Acquisition of assets should be properly planned and implemented.
- A proper system of asset accounting should be developed by the PRIs.
- Consistent efforts are required on the part of the Government and PRIs to avoid under/non utilization of assets.
- Government should consider entrusting the responsibility of ensuring timely implementation of projects relating to creation/acquisition of assets and their proper utilisation to the District Planning Committee.
- The internal control system in PRIs should be strengthened