

CHAPTER V

PERFORMANCE REVIEWS (PANCHAYAT RAJ INSTITUTIONS)

This chapter presents three performance reviews dealing with (a) Distribution and utilisation of local bodies incentive, (b) State Finance Commission grants to Coimbatore, Thanjavur and Vellore District Panchayats and (c) Utilisation of local body grants in 24 panchayat unions.

FINANCE AND RURAL DEVELOPMENT DEPARTMENTS

5.1 Distribution and utilisation of local bodies incentive

5.1.1 Introduction

For bridging the fiscal deficit and as an extra budgetary resource to finance State plans, the Government of India was transferring 75 *per cent* of monthly net small savings¹ collected to the State Governments as long term loan. Government of Tamil Nadu introduced (February 1987) an incentive scheme for augmenting collections under Small Savings Scheme and released ten *per cent* of the above loan received from Government of India as local bodies incentive as grant with reference to incremental net small savings collection of the districts. Seventy five *per cent* of such grant was to be allocated by the Collector concerned to such local bodies who increased the net small savings collection in their areas by at least Rs 10 lakh over the previous year. This grant was to be utilised only for certain items of repair works. The remaining 25 *per cent* was to be retained by the District Collector for meeting expenditure on works required to be executed urgently in the district through District Rural Development Agencies/Block Development Officers. Rupees 167.50 crore were released during 2000-06 as local bodies incentive relating to the small savings for the year 1998-99 to 2003-04.

5.1.2 Audit objectives

The objectives of audit were to see

- whether the allocation of incentive was as per norms and
- whether the incentive allotted was utilised for the purposes specified in the guidelines.

¹ Increased to 80 *per cent* from January 2000 and 100 *per cent* from March 2002.

5.1.3 Audit criteria

- Guidelines issued by the State Government for allocation and utilisation of the incentive.
- Conditions prescribed in the orders releasing the incentive.

5.1.4 Audit coverage and methodology

The release of the grants by the Government, their receipt, accounting and utilisation by the local bodies during the period 2000-06 was reviewed in Kancheepuram, Tiruchirappalli and Tiruvallur Districts during June 2004 - August 2004 and June-July 2006.

5.1.5 Audit findings

The deficiencies noticed in allocation, utilisation and accounting of the incentive in the three test checked districts are discussed in the succeeding paragraphs.

5.1.5.1 Improper allocation of incentive

Improper allocation of Rs 9.60 crore to ineligible districts.

The grant was to be distributed amongst the districts on the basis of increase in net small savings collection over the previous year. However, the Finance Department distributed grants to some districts that had not recorded any increase in net small savings collection over the previous year and there was also excess/short allocation to some districts. The improper allocation was as detailed below:

(Rupees in crore)

Sl. No.	Period of small savings	Year of release of grant	Grant released					
			to ineligible districts		in excess		short	
			No. of districts	Amount	No. of districts	Amount	No. of districts	Amount
1.	1998-99*	2000-01	-	-	13	3.18	14	3.18
2.	2000-01	2002-03	4 [@]	0.83	9	0.61	16	1.44
3.	2001-02	2003-04	21 [#]	8.77	5	1.10	3	9.87
4.	2002-03	2004-05	Nil	Nil	20	4.74	9	4.74
5.	2003-04	2005-06	Nil	Nil	17	3.72	12	3.72
Total				9.60		13.35		22.95

* No grant was released to two districts in which there was a decline in small savings. For the year 1999-2000, allocation was made as per the norms.

@ includes Tiruchirappalli District.

includes three test checked districts.

As may be seen from the table above Rs 9.60 crore was released during 2000-02 to 25 districts (2000-01: four districts and 2001-02: 21 districts), which were not eligible to receive the incentive as they recorded decrease in small savings collection over previous years. Further, the incentive for the

years 1998-99 to 2003-04 (except for 1999-2000) was released in excess to the tune of Rs 13.35 crore to five to 20 districts and short to the tune of Rs 22.95 crore to three to 16 districts.

In respect of the three test checked districts, Rs 1.31 crore was released short during the years 2000-01 and 2004-05 and Rs 2.08 crore was released in excess during the years 2002-04. While during 2005-06, Rs 86.51 lakh was released short for Kancheepuram and Tiruchirappalli Districts, Rs 37.62 lakh was released in excess to Tiruvallur District (**Appendix XXV**). The non-payment of incentive to the local bodies which were performing well would actually act as a disincentive.

In three test checked districts Rs 65.39 crore were released during 2001-06 to various blocks, which did not record the required increase in net small savings collection as shown below:

Sl. No.	Districts	2001-02		2002-03		2003-04		2004-05		2005-06		Total	
		Number of blocks	Amount (Rupees in crore)	Number of blocks	Amount (Rupees in crore)	Number of blocks	Amount (Rupees in crore)	Number of blocks	Amount (Rupees in crore)	Number of blocks	Amount (Rupees in crore)	Number of blocks	Amount (Rupees in crore)
1.	Kancheepuram	12	1.18	-	-	9	17.37	3	8.23	1	1.70	25	28.48
2.	Tiruchirappalli	4	0.70	1	0.01	1	14.98	-	-	6	14.00	12	29.69
3.	Thiruvallur	1	0.06	-	-	5	7.16	-	-	-	-	6	7.22
Total		17	1.94	1	0.01	15	39.51	3	8.23	7	15.70	43	65.39

5.1.5.2 Non-utilisation of incentive

Out of the incentive released during 2001-06, Rs 2.36 crore was kept unutilised.

Out of Rs 27.60 crore released as grant during 2000-01 to 2005-06 (for the small savings years 1998-99 to 2003-04) in the three test checked districts, Rs 2.36 crore² were kept unutilised as of June 2006 with District Rural Development Agencies (DRDAs)/Block Development Officers (BDOs). Of this amount, Rs 48.21 lakh were lying unutilised with the DRDA, Tiruvallur since March 2004. It was further noticed that the DRDA, Kancheepuram had an unutilised balance of Rs 1.16 crore as of March 2006 as per their records, while the balance (as arrived at by Audit) was Rs 1.27 crore and the difference needed reconciliation.

5.1.5.3 Irregular utilisation of incentive

The local bodies utilised Rs 3.49 crore for new works instead of on repair works.

Despite the orders of the Government that 75 per cent of the grant be used only for repair works, in the three test checked districts, 294 new works were undertaken and completed at a cost of Rs 3.49 crore³ out of the grants received during 2000-06. It is pertinent to note in this connection that the Committee on Public Accounts, while considering a similar paragraph included in Civil Audit report for 1994-95, had recommended that guidelines issued by Government for the utilisation of incentive should be followed scrupulously.

² Kancheepuram Rs 1.27 crore out of Rs 9.75 crore, Tiruchirappalli Rs 0.05 crore out of Rs 10.06 crore and Tiruvallur Rs 1.04 crore out of Rs 7.79 crore.

³ Kancheepuram: Rs 200.82 lakh (144 works), Tiruvallur: Rs 5.68 lakh (18 works) and Tiruchirappalli: Rs 142.7 lakh (132 works).

Government, with reference to such works taken up from incentive released during 2000-03, stated (July 2005) that (a) the expenditure in Tiruchirappalli District was on upgradation of water bound mecadam roads into black topped roads and damaged black topped roads into cement concrete roads, provision of bore wells in the case of failed ones and construction of kitchen sheds and bridges due to necessity and non-allotment of funds under other schemes, and (b) funds were utilised in Tiruvallur District for providing bore wells as an alternative to existing ones to combat drought situation. The reply of Government is not tenable as the guidelines clearly stipulate that only repair works were to be taken for utilising 75 per cent of these grants and many other schemes were available for taking up such new/improvement works.

5.1.5.4 Diversion of funds

Two districts spent Rs 47.19 lakh on ineligible items of expenditure.

Government also prescribed (December 2000) the type of new works (hand pumps, cement roads, etc.) that could be taken up with the 25 per cent grant retained by the Collectors. Audit scrutiny revealed that Rs 47.19 lakh was diverted to the following ineligible works out of the grants released during 2001-06:

(Rupees in lakh)			
Sl. No.	Year	Diverted for	Expenditure
Kancheepuram District			
1.	2002-03	Purchase of medical equipments	20.54
2.	2003-04	Installation of intercom facilities at the Collectorate	1.11
3.	2004-05	Purchase and supply of accessories to Government hospital located at Collectorate	0.22
4.	2004-05	Repair to wireless sets of vehicles of Collector/Tahsildar	0.31
5.	2004-05	Diversion of funds to fodder development account under poverty alleviation programme and not recouped	15.00
Tiruchirappalli District			
6.	2002-03	Provision of tiles to 67 group houses	1.67
7.	2003-04	Purchase of sports materials	0.82
8.	2004-05	Purchase and supply of medical equipments to Annal Gandhi Memorial Government Hospital	7.52
Total			47.19

Government stated (July 2005) that the expenditure in respect of works in Sl. No. 1, 2, 6 and 7 of the above table was incurred under extraordinary circumstances as a special case and also due to non-availability of funds under other schemes. The reply of the Government is not acceptable as the guidelines prohibit purchase of stores and stock from incentive grant and diversion of these funds to other schemes. Further, the expenditure on the

work of installation of intercom facilities could have been met out of the budget allocation of the District Collectorate.

5.1.5.5 Improper maintenance of accounts

Though the 75 per cent grant and 25 per cent grant were required to be kept in separate Post Office savings bank accounts, the Collector, Kancheepuram District maintained consolidated savings bank account and cash book for both the grants. There was no indication in the cash book as to which of the two grants a particular expenditure related to.

5.1.6 Conclusion

The incentive grants were distributed in violation of the guidelines to the districts/blocks, which had not recorded any increase in net small savings collection over the previous years. Grants of Rs 2.36 crore were kept unutilised in three districts. New works costing Rs 3.49 crore were taken up and completed despite the stipulation of Government that only repair works would be taken up with 75 per cent of the grant. Grants to the tune of Rs 47.19 lakh were diverted for ineligible works.

5.1.7 Recommendations

- The incentive grant should be distributed only to those districts/blocks which record increase in net small savings collection over the previous year, strictly as per the guidelines issued by Government of India.
- Only repair works stipulated in the guidelines, should be taken up for utilising the 75 per cent portion of local body incentive grant.

The above points were referred to Government in March 2006; reply has not been received in respect of points raised on allocation during 2000-06 and utilisation of incentives received during 2004-06 (May 2007).

RURAL DEVELOPMENT DEPARTMENT

5.2 State Finance Commission grants to Coimbatore, Thanjavur and Vellore District Panchayats

5.2.1 Introduction

Government of Tamil Nadu constituted (December 1999) the Second State Finance Commission (SSFC) to review the financial position of urban and rural local bodies and recommend on financial devolution to the local bodies from the tax revenue of the State Government. Government adopted (August 2002) the ratio of 47:45:8 for devolution of funds allotted for rural local bodies among village panchayats, panchayat unions and district panchayats as recommended (May 2001) by the SSFC. The grant released to district panchayats was to be utilised for administrative and contingent expenditure and the balance was to be spent on needy capital works through panchayat unions. Government issued (March 1997) guidelines for utilisation of the State Finance Commission grants and Director of Rural Development Department (DRD) supplemented them in December 1997 which were adopted for utilisation of Second State Finance Commission grants also.

5.2.2 Audit objectives

Audit objectives were to see whether

- the grants have been distributed as per norms and
- the grants were utilised for the intended purposes and as per norms.

5.2.3 Audit criteria

The following were taken as audit criteria:

- Guidelines issued by Government and the Director of Rural Development for utilisation of grants and
- conditions prescribed in the orders of Government releasing the grant.

5.2.4 Audit coverage and methodology

The review on release and utilisation of grants to the district panchayats covering the period 2002-06 was conducted during August and September 2006 at Rural Development Department of Secretariat, Office of the Director of Rural Development Department and in three selected district panchayats¹. The audit methodology followed was scrutiny of records produced to Audit and replies furnished by the department/local bodies to audit enquiries.

¹ Coimbatore, Thanjavur and Vellore.

5.2.5 Audit findings

The findings of the review are discussed in the succeeding paragraphs.

5.2.5.1 Irregular distribution of grants

As the ratio for distribution of grant recommended by SSFC was not adopted there was short release of grant of Rs 5.50 crore to Coimbatore District during 2002-06.

The Director of Rural Development (DRD) distributed the grant to district panchayats through the District Collectors. As per the recommendations of the SSFC the grants to rural local bodies were to be distributed giving weightage of 40 *per cent* for total population, 40 *per cent* for women and 20 *per cent* for people living in huts and SC/ST population adopting the population as per 2001 census. The DRD, however, distributed the grants adopting a weightage of 66.67 *per cent* for total population and 33.33 *per cent* for SC/ST population as recommended by the First State Finance Commission with reference to the 1991 census population figures. The weightage for women was not considered. As a result there was short release of grant of Rs 5.50 crore to District Panchayat, Coimbatore during 2002-06. The DRD stated (October 2006) that the distribution was done (excluding the women) based on the 1991 census, as the 2001 census was published only in May 2006. This reply is not acceptable, as the population of women as per the figures available could at least have been adopted for the purpose of distribution of grants.

5.2.5.2 Delay in release of grant

There was delay of more than a month in release of grant in 24 *per cent* of releases from DRD to Collectors and in 25 *per cent* of releases from Collectors to district panchayats.

Government specified that DRD should release to District Collectors the grant meant for district panchayats on monthly basis and the Collectors were to release it in turn to district panchayats within two or three days of receipt. Test check of records in the district panchayats selected for review revealed that there were delays ranging from 16 days to one month in respect of 46 *per cent* and more than a month in respect of 24 *per cent* of the cases of release of funds by DRD to Collectors.

There were also delays ranging from 16 days to one month in respect of 21 *per cent* and more than a month in respect of 25 *per cent* of the cases of release of funds from the Collector to district panchayats (**Appendix XXVI**).

5.2.5.3 Administrative expenditure in excess

The guidelines (December 1997) envisaged that the administrative expenditure was to be restricted to 10 *per cent* of the funds allotted annually to the district panchayats subject to a maximum of Rs 15 lakh. However, in the three test checked districts Rs 25.02 lakh was incurred for administrative activities in excess of the above limits as given in the table below:

(Rupees in lakh)

Year	District	Total fund released*	Administrative expenditure	
			Incurred	Excess (<i>per cent</i>)
2002-03	Thanjavur	190.65	15.25	0.25 (02)
	Vellore	288.75	15.79	0.79 (05)
2003-04	Coimbatore	192.53	24.13	9.13 (61)

(Rupees in lakh)

Year	District	Total fund released*	Administrative expenditure	
			Incurred	Excess (per cent)
2004-05	Thanjavur	259.64	17.06	2.06 (14)
2005-06	Coimbatore	307.12	25.93	10.93 (73)
	Thanjavur	217.06	16.86	1.86 (12)
Total			25.02 (28)	

* As per norms, the admissible amount for administrative expenditure is Rs 15 lakh in all these instances.

5.2.5.4 Delay in execution of works

The works were entrusted to the successful bidders by the issue of work orders specifying the scheduled date of completion. However, test check of records in eight panchayat unions in Thanjavur and Vellore Districts revealed that there was delay of more than a month in respect of 69 works² as given below:

Though there was delay of more than three months in respect of 38 works executed, no penalty was levied on the contractors.

Sl. No.	Panchayat union	Delay in completion of work		
		More than one month to three months	More than three months to six months	More than six months
Thanjavur District				
1.	Kumbakonam	5	4	2
2.	Papanasam	3	3	1
3.	Pattukkottai	8	4	2
4.	Thiruvaiyaru	4	--	--
Vellore District				
5.	Arcot	--	--	1
6.	K.V.Kuppam	1	4	--
7.	Vellore	5	6	2
8.	Wallajah	5	7	2
Total		31	28	10

While 31 works were delayed beyond one month, 28 works were delayed beyond three months and 10 works beyond six months. The agreements did not include any penal clause for delayed completion of work and no penalty was levied by the local bodies on the contractors for delay in completion of works.

5.2.5.5 Irregular calling of tenders

The district panchayat called for centralised tenders for provision of streetlights in violation of the guidelines.

While selection of works to be executed was entrusted to the district panchayats, they were barred from calling for tenders for the works to be executed. As per guidelines only the panchayat union or panchayat concerned should call for tenders. The District Panchayat, Coimbatore, however, called for tenders for providing 14,920 streetlights at a total cost of Rs 2.99 crore for 10 panchayat unions.

² Capital works such as construction of public distribution shops, additional classrooms, culverts, thrashing floor, provision of street lights, road works, etc.

5.2.5.6 Irregular accord of administrative/technical sanction

Administrative sanction for the execution of works out of the SSFC grants to district panchayats was to be accorded by the District Collectors based on the resolution passed by the council of the district panchayat concerned. In violation of these instructions, the Secretary to the district panchayat had accorded administrative sanction for works selected by two district panchayats out of the three test checked district panchayats (Coimbatore and Thanjavur). Further, in terms of Tamil Nadu Panchayats (Preparation of plans and estimates for works and Mode & Conditions of Contract) Rules, 1998 technical sanction for the works taken up in district panchayat was to be accorded by the Assistant Engineer/Assistant Executive Engineer/Executive Engineer/Superintending Engineer of the Rural Development Department. However, in one district out of three test checked districts (Thanjavur) for works executed by Kattidamaiyam,³ its Project Engineer accorded the technical sanction.

5.2.6 Conclusion

The grants were not distributed based on the ratio recommended by the Second State Finance Commission. There was delay in release of funds by Director of Rural Development to Collectors and in turn by the Collectors to district panchayats. Though there was delay in execution of works no penalty was levied on the contractors, as there was no penal clause in the agreements. The District Panchayat, Coimbatore called for tenders for provision of streetlights though the guidelines specifically barred calling of centralised tenders by the district panchayats.

5.2.7 Recommendations

- The Director of Rural Development should strictly adhere to the norms recommended by Second State Finance Commission for release of grants.
- Delay in release of grants should be avoided at all levels.
- Agreements for execution of works should be drawn properly so that penalty could be levied for delay in execution of works.
- The Government should insist upon strict compliance with the guidelines issued.

The above points were referred to Government in January 2007; reply has not been received (May 2007).

³ Kattidamaiyam: An agency formed for execution of civil works by the Collector in each district.

5.3 Utilisation of local body grants in 24 panchayat unions

5.3.1 Introduction

Government of India released local body grants to panchayat raj institutions during 2000-05 based on the recommendations of the Eleventh Finance Commission. The grants so released were to be utilised for financing the maintenance of civic services in rural areas.

5.3.2 Audit objectives

Audit objectives were to examine whether

- allocation of grants was as per norms and
- utilisation of grants was as per guidelines.

5.3.3 Audit criteria

The following were adopted as audit criteria:

- Government of India guidelines for release and utilisation of grants and
- conditions prescribed in the orders of the State Government for release of grants.

5.3.4 Audit coverage and methodology

Utilisation of the local body grants released during 2000-05 was reviewed in four panchayat unions in each of the six districts¹ selected for review. The review conducted during August and September 2006 covered the period 2000-06. The audit methodology followed was scrutiny of records produced to Audit and examination of replies furnished to audit enquiries by the department and local bodies.

5.3.5 Financial management

Out of the total grants of Rs 466.12 crore released during 2000-05, Rs 25.96 crore² was earmarked for maintenance of accounts in village panchayats/panchayat unions and Rs 10.38 crore for creation of database relating to finances of local bodies. Government of India released the grants in two equal half yearly instalments every year. The State Government allocated the grants between panchayat unions and village panchayats in the ratio of 45:55. The Director of Rural Development (DRD) allocated and distributed the local body grants to panchayat unions through the District Collectors.

¹ Dharmapuri, Erode, Tiruchirappalli, Tiruvannamalai, Tiruvarur and Villupuram.

² At Rs 4,000 per panchayat raj institution per year for 12,593 village panchayats and 385 panchayat unions for five years = Rs 4,000 x (12,593 + 385) x 5 = Rs 25,95,60,000 or Rs 25.96 crore.

5.3.6 Audit findings

The findings of the review are discussed in the succeeding paragraphs.

5.3.6.1 Irregular allocation of grants

The State Government did not adopt the formula recommended by State Finance Commission for distribution of local body grant.

The Eleventh Finance Commission recommended that the local body grants to the panchayats and panchayat unions should be distributed on the basis of recommendations of the State Finance Commissions. The First State Finance Commission recommended (May 1997) that the local body grants should be allocated on the basis of (i) weightage for total population – 50 per cent; (ii) weightage for SC/ST population – 25 per cent; and (iii) weightage for financial viability of panchayat unions – 25 per cent. Based on the recommendation (May 2001) of the Second State Finance Commission the State Government ordered (August 2002) that the distribution of local body grants should be on the basis of (i) weightage for total population – 40 per cent; (ii) weightage for women – 40 per cent; and (iii) weightage for hut dwellers and SC/ST population – 20 per cent. However, the State Government distributed local body grants based on total population only, without taking into consideration the recommendations of the State Finance Commissions as recommended by the Eleventh Finance Commission. As a result, of the test checked districts, Erode received Rs 1.25 crore less and Tiruvannamalai received Rs 38.26 lakh more during 2000-05³.

5.3.6.2 Diversion of local body grant

The local bodies spent Rs 11.23 crore on ineligible items of work.

The guideline for utilisation of the local body grants envisaged that the grants should be used to finance the maintenance of civic services in rural areas. The State Government as guided by Government of India, identified the following civic services for utilisation of the grants: (i) primary education; (ii) health care; (iii) safe drinking water; (iv) sanitation including drainage and scavenging facilities, (v) maintenance of cremation and burial grounds, (vi) public conveniences; and (vii) other common property resources. Further, as per Government of India guidelines, the projects should normally be those that are not covered under other schemes of the Government of India or the State Government. The local body grants were diverted for execution of ineligible works as discussed below.

The State Government ordered (July 2000) establishment of 3,850 Sports Recreation Centres (SRC) in 385 panchayat unions at ten centres per panchayat union. The cost of establishment of each centre was Rs 25,000, of which Rs 23,000 was met out of local body grants and the balance Rs 2,000 from out of State funds. The State Government had thus diverted Rs 8.86 crore for ineligible item of work in violation of the guidelines for utilisation of the grants.

Seventeen test checked panchayat unions in six districts executed 55 works involving improvement to the panchayat union office buildings and repair to panchayat union staff quarters and construction of additional school building, etc., at a cost of Rs 42 lakh, (**Appendix XXVII**) violating the guidelines.

³ In respect of other test checked districts the irregular allocation could not be worked out as these districts were formed only after 1991 census.

The guidelines did not identify maintenance of roads for execution out of local body grants. However, 14 test checked panchayat unions in four districts executed 147 road works spending Rs 1.95 crore, (**Appendix XXVII**) out of the local body grants during 2000-05.

In violation of Government of India guidelines, Assistant Director (Panchayats), Dharmapuri District deposited local body grant of Rs 2.50 crore relating to panchayat raj institutions in Post Office account for 14 days to achieve target for small savings.

5.3.6.3 Funds kept unutilised

In the 24 test checked panchayat unions, Rs 53.41 lakh of local body grant and Rs 14.37 lakh, (**Appendix XXVIII**) being the interest earned from savings bank account remained unutilised (July 2006). Further, Rs 38.33 lakh being the interest earned in the savings bank accounts of Assistant Directors (Panchayat) of four districts also remained unutilised (July 2006).

5.3.7 Conclusion

The State Government had not followed the norms prescribed by Government of India for allocation of the grants among panchayat unions. The grant released has been diverted to purposes other than those enunciated in the guidelines.

5.3.8 Recommendations

- The local body grants should be allocated with reference to population figures as per 2001 census.
- It should be ensured that the grant is utilised only for the intended purposes.

The above points were referred to Government in December 2006; reply has not been received (May 2007).