

## **CHAPTER-1**

### **ACCOUNTS AND FINANCES OF THE PANCHAYTI RAJ INSTITUTIONS**

#### **1.1 Introduction.**

1.1.1 Panchayati Raj Systems (PRS) in Himachal Pradesh has been established in 1954 under the provisions of the Himachal Pradesh Panchayati Raj Act (HPPRA), 1952. In November 1966, the hilly areas of Punjab were merged with this State. In the merged area, a three tier<sup>1</sup> PRS was in existence, whereas two tier<sup>2</sup> system was prevalent in the old area of the State. In order to bring about a uniformity in the PRS of the old and the newly merged areas, HPPRA, 1968 was enacted in November 1970 and two tier system was established throughout the State and judicial functions were also transferred to Gram Panchayats.

In order to give effect to the 73<sup>rd</sup> Constitutional amendment, 1992 and to establish a three-tier Panchayati Raj Institution (PRI) system in the state, revised HPPRA was enacted in 1994 repealing all existing Acts. Twelve Zila Parishads (ZPs), 75 Panchayat Samities (PSs) and 3243 Gram Panchayats (GPs) were created in the state. The representatives of PRIs are elected after every five years. The last general election was held in December, 2005.

1.1.2 The Eleventh Finance Commission (EFC) had recommended exercising control and supervision over maintenance of accounts of PRIs at all three tiers and their audit by the Comptroller and Auditor General of India (CAG). Consequently the State Government entrusted Technical Guidance & Support (TGS) over the accounts and audit of PRIs to the CAG of India vide an executive order (December, 2003) according to which the Accountant General's office now Principal Accountant General (PAG) will be at liberty to conduct audit of such number of PRIs in such manner as it deemed fit. Proper notification in this regard is still awaited from the State Government.

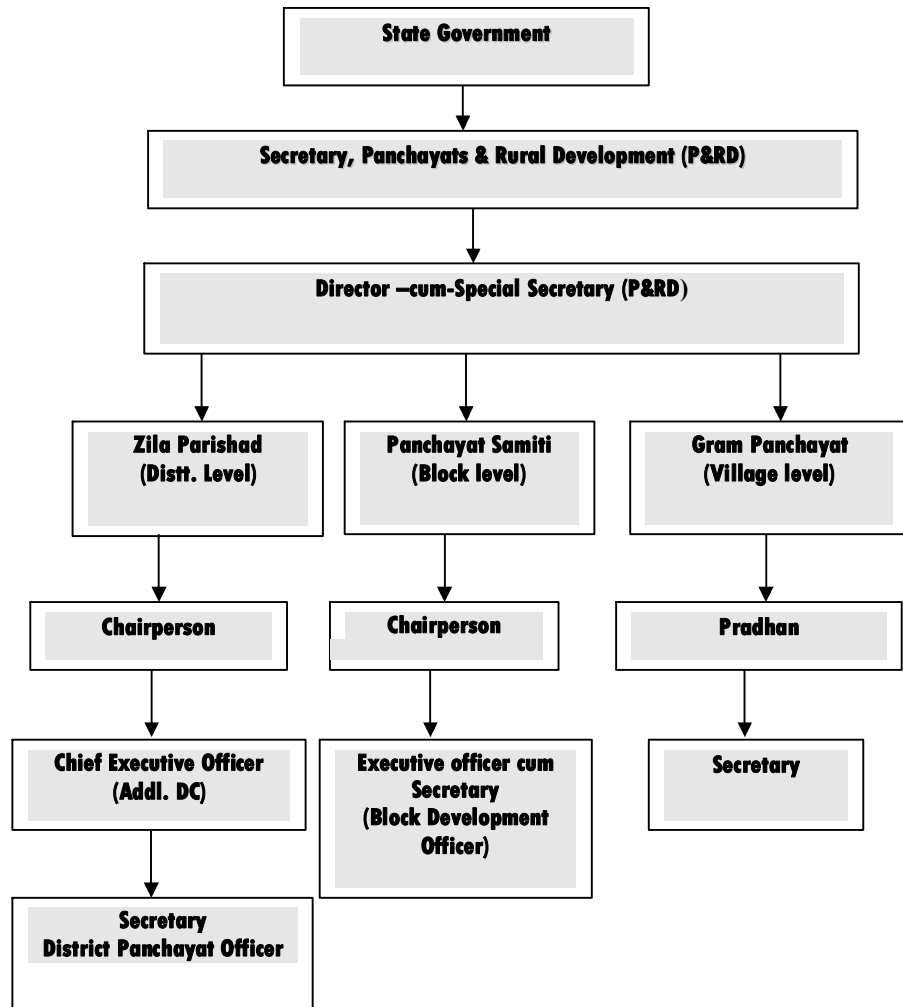
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<sup>1</sup> Gram Panchayat, Panchayat Samiti and Zila Parishad.

<sup>2</sup> Gram Panchayat and Panchayat Samiti.

## 1.2 Organizational Set up.

The organogram given below depicts the organizational structure of the department and the PRIs at the ZP, PS, and GP level:



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

## 1.3 Sources of Funds.

Execution of various developmental works is carried out with funds provided by the Government of India and State Government and the revenue earned by the PRIs out of their own resources such as house tax, rent from shops/stalls, service fee and fee for issue of fishing licenses, tehbazari<sup>3</sup> etc.

<sup>3</sup> Small Khokhas/shops given on rent.

The following table shows the financial position of PRIs for the last three years:-

**(Rs. In lakh)**

Years	Receipts						Expenditure		
	State Govt.	Central Govt.	Own Revenue	Loans	Other revenue	Total	Capital	Revenue	Total
2005-06	10650.23	7611.43	588.38	1.00	538.01	19389.05	12796.11	6592.94	19389.05
2006-07	12337.32	8078.57	610.73	11.00	554.15	21591.77	14231.05	7360.72	21591.77
2007-08	14101.82	8792.42	633.81	20.00	570.77	24118.82	16000.10	8118.72	24118.82

**(Source-Director (PR))**

**1.4 Audit Coverage.**

Audit of accounts of 6 ZPs (out of 12), 25 PSs (out of 75) and 289 GPs (out of 3243) was conducted for the year 2007-08 **(Appendix-1)**. The important audit findings are discussed in the succeeding paragraphs.

**1.5 District Planning Committees.**

As per Article 243-ZD of the Constitution, District Planning Committees (DPCs) are to be constituted by the State Governments so as to consolidate the development plans formulated by the local bodies. The State Government had constituted *(May 2006)* the DPCs in all the districts. However these are functional only in two districts of Chamba and Sirmour. Director PRI stated (May 2009) that the DPCs would be made functional in remaining districts also after finalization of activity mapping for funds, functions and functionaries. The district planning could not be effective as the DPCs were not functional.

**1.6 Accounting arrangements.**

The EFC had recommended exercising control and Supervision over maintenance of accounts of all three tiers of PRIs by the CAG. The CAG has prescribed standard formats for budget and accounting system, but the State Government has still not adopted these formats. The Director Panchayati Raj stated (March, 2009) that matter regarding adoption of budget & accounts formats prescribed by the CAG was under process.

**1.7 Database of PRIs.**

As per recommendation of Eleventh Finance Commission (EFC), specific grants provided by the Government of India were to be utilised for the development of database on finances of PRIs at District/State level. For this purpose the data was to be collected and compiled in standard formats prescribed by the CAG. Although the database has not been maintained, Rs. 7.99 crore has been spent (upto March 2007) by the department for purchase of articles/materials such as computers, printers, furnitures and

LAN cabling etc. for supplying to PRIs for this purpose. Director, Panchayati Raj stated (May 2009) that the department had computerized all ZPs and PSs and 2370 GPs, the rest of GPs shall be computerized during 2008-09. Though the computers have been supplied in the above ZPs, PSs and GPs , yet the requisite data required for maintenance of accounts in the formats prescribed by the CAG has not been generated by the concerned PRIs which was essential for strengthening accountability and transparency of PR institutions.

### **1.8 Internal Audit.**

Sub-Section (I) of section 118 of the Himachal Pradesh Panchayati Raj Act, (HPPRA) 1994 provides that there will be a separate and independent Internal Audit Agency under the control of the Director, Panchayati Raj to audit the accounts of PRIs with a view to having proper financial control on income and expenditure. The agency is required to conduct audit of all the three tier of PRIs annually. The position of internal audit conducted during the year 2007-08 was as under:-

<b>Name of Institution</b>	<b>Total units</b>	<b>Nos. of units audited</b>	<b>No. of units not audited</b>	<b>Percentage of short fall</b>
1. Zila Parishad	12	8	4	33
2. Panchayats Samiti	75	52	23	31
3. Gram Panchayats	3243	2751	492	16

The Director Panchayati Raj stated (May 2009) that the targets for the audit could not be achieved during 2007-08 due to shortage of staff.

### **1.9 Outstanding Inspection Reports.**

As a result of audit of PRIs by PAG office under TGS, 852 inspection reports containing 3783 paras were issued to concerned PRIs during 2005-09 as per details given below:-

<b>Sr.No.</b>	<b>Year of issue of Inspection Reports</b>	<b>No. of Inspection Reports</b>	<b>No. of paras issued</b>	<b>No. of paras settled</b>	<b>No. of outstanding IRs/Paras</b>	
					<b>IRs</b>	<b>Paras</b>
1.	2005-06 & 2006-07	195	580	32	195	548
2.	2007-08	337	505	08	337	497
3.	2008-09	320	2698	0	320	2698
	Total	852	3783	40	852	3743

The PRIs did not show interest in complying with the audit observations as evident from the fact that only 40 paras out of a total of 3783 have been settled till March 2008.

### **1.10 Devolution of Funds, Functions and Functionaries to the PRIs.**

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

### **1.11 Devolution of functions.**

#### **1.11.1 Inadequate transfer of functions.**

The State Government through its notification (July 1996) entrusted only 26 functions, **(Appnedix-2)** out of 29 functions listed in the Schedule to the PRIs. Transfer of three functions namely i) Rural electrification including distribution of electricity, ii) Adult and non-formal education and iii) Cultural activities, though mandated under the HPPR Act, 1994 for transfer, were not transferred and these functions are still (May 2009) being implemented by the respective departments. The Director (PR) stated (June 2006) that PRIs were not capable of handling these functions and hence the functions were not transferred.

#### **1.11.2 Activity Mapping.**

Activity Mapping is the sound foundation of Panchayati Raj. In order to avoid overlapping of function and its balance distribution among various tiers of PRIs, a mechanism for inter tier coordination was to be evolved for the 26 transferred functions.

It was, however, noticed that the Activity Mapping has not been done by the State Government. Director, Panchayati Raj stated (April 2009) that Activity Mapping has been approved by the Chief Minister in December 2008 and the same had been sent to the concerned Departments for taking policy decision at Government level with regard to finalizing an Activity mapping so as to devolve function, power and functions and related functionaries to PRIs. Thus due to non-finalization of Activity Mapping, the principal of subsidiarity has not been achieved.

#### **1.11.3 Non-transfer of Institutions.**

Government order (July 1996) transferring functions also envisages transfer of institutions relating to transferred functions. Thus schools, primary health centers and hospitals, farm, post matric hostels, veterinary hospitals were to be transferred to the respective PRIs. The income accruing

from these intuitions was to be treated as own income of the PRIs concerned. However, the actual control is still with the concerned departments and functions of these institutions were being carried out by respective departments.

#### **1.11.4 Withdrawal of function.**

The transferred 26 functions also include the function relating to water supply. In order to involve the GPs in management of community assets and increase community participation, State Government notified (February 2001) that user charge for water shall be recovered by the Panchayats and be shared in the ratio of 50 per cent between Panchayat and Irrigation & Public Health (IPH) department. The Panchayats were also allowed to retain the revenue generated as a result of fixation of charges in excess of charges fixed by IPH department. However, the powers to fix and collect water charges were withdrawn from the GPs in August 2002. The Principal Secretary (IPH) stated (June 2009) that the powers to collect the water charges were subsequently withdrawn because in few instances PRIs were unable to undertake such task due to lack of supporting staff and due to demands made by supporting staff for regularization. Withdrawal of the devolved function subsequently has deprived the PRIs of the powers to enhance their funds as well as functionaries.

#### **1.11.5 Non-legislation to amend the laws for transferred functions.**

As per Eleventh Finance Commission's recommendations, PRIs were required to be empowered for scheduled areas in respect of transferred functions. The State Government was therefore to amend the laws by legislation, frame rules of guidelines. However, no legislations to amend laws for the scheduled areas were enacted (June 2009). As a result of non-legislation, no amendments could be made in codes and manuals in respect of functions like roads and building, public health, veterinary hospitals, primary health centers and hospitals etc. though these function stood devolved to PRIs. These functions are being carried out directly by the concerned Government department for which they are also controlling the resources. Thus the purpose of devolution of functions to PRI, without actual control, stood defeated.

#### **1.12 Devolution of functionaries.**

The transferred functions were to be accompanied by requisite devolution of functionaries and the State Government was therefore to

provide required administrative structure and support to make the institutions and functionaries of the devolved functions accountable to the PRIs. The State Government had neither transferred the functionaries nor vested the PRIs with powers to administratively control the functionaries associated in implementation of the devolved functions. The following deficiencies were noticed.

#### **1.12.1 Non-merger of DRDA with Zila Parishad.**

DRDAs created for implementation of Rural Development Programmes being sponsored by the Central Government were registered bodies under Societies Registration Act 1960. With the setting up of District Planning Committees (DPCs) and the provisions of the Act, DRDAs were either to be abolished or legitimately merged with the respective ZPs to function as a technical support agencies of the PRIs. However, DRDAs continue to exist as separate and distinct bodies. It was noticed that the DPOs of the respective districts were designated as Secretary of Zila Parishad instead of Project Director of the DRDAs. The Director (PR) admitted (June 2009) that there was no linkage between DRDA and Panchayati Raj Department.

Due to non-linkage between DRDA and Panchayati Raj Department monitoring of functions and funds becomes difficult. GPs may receive funds from both the departments for the same purpose. If DRDAs are merged with ZPs, the functions of PRIs can be monitored in a better way.

#### **1.12.2 Lack of unified control of PRIs.**

The administration and monitoring of three tier system of PRIs is not under unified control. First and third tier (ZP & GP) are under the department of Panchayati Raj while second tier (PS) is under Rural Development Department. In order to improve the functioning, monitoring and for administrative purposes, all the PRIs should have remained with a single department.

The Director (PR), however, stated (June 2009) that the control of three tiers of PRIs though vested with Panchayati Raj and Rural Development Departments, all the three tiers of PRIs were independent constitutional bodies and role of both the departments was to guide the PRIs as per provisions of the HPPR Act 1994.

The reply was not tenable as for improving the functioning and for accountability, the control should have been remained with one department.

### **1.12.3 Administrative control over functionaries.**

The BDO had been designated to act as Executive Officers cum Secretary to the Second tier (PS) of PRIs. Similarly functionaries like Panchayats Secretaries, Panchayat Sahayak and Panchayat Inspectors were working in GP & PS for implementation of various PRI schemes but were under administrative control of State Rural Development Department. These employees were being covered under the service conditions of their parent department and their salaries and allowances were also being paid by the respective departments. Thus for all purposes, these functionaries continued to perform as Government Servants subject to control by their parent department and not of the PRIs, thereby negating the basic objective of the decentralization. The Director (PR) while admitting (June 2009) the facts stated that the mechanism was being developed to deal with such problem by the department.

### **1.13 Devolution of funds.**

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

#### **1.13.1 Non-provision of funds under Panchayat Sector.**

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

#### **1.13.2 Taxation power and resources of PRIs.**

The power of PRIs to impose taxes was considered imperative as enshrined in the constitution under Article 243 H of impact, certainty, continuity and strength to PRIs. Devolution of taxes for the devolved



functions was very essential as huge funds were required for the delivery of service. Accordingly powers to levy taxes and fees were vested with PRIs under section 100 of the HPPRA, 1994. However, the powers to levy taxes on various services including resources of the PRIs have not been devolved to PRIs. They still remain with the respective departments as per various notifications issued by the State line departments fixing the rates of taxes and fees and no compensation on this account was transferred to PRIs.

### **1.13.3 Lack of knowledge about availability of Incentive Fund.**

The Second State Finance Commission (SFC) assumed that GPs will generate revenue receipts from various sources like Liquor Cess, House Tax, Land revenue, Royalty and other tax, fees and non-tax revenue. Further the Second SFC had made a provision of incentive fund of Rs. 20 crore (at the rate of Rs. 4 crore per annum) during 2002-07 to be given to GPs for additional resource mobilization efforts made by the Panchayats over and above the level of taxes and fees assumed by the Commission. The Panchayats could avail the double incentive against the net fresh additional resource mobilization efforts. During discussions with the PRI representatives, the Third SFC realized that the Panchayats had not been able to avail of any funds out of the provision of incentive fund due to lack of knowledge on the part of the GPs on one hand and lack of clarity in the administration of scheme on the other.

The State Government has notified (August 2008) scheme for availing incentive against the net fresh additional resource mobilization by the GPs. It was however noticed that so far only one GP Chamyana has proposed to levy user charges for which the State Government has agreed to while the scheme was yet to be implemented in rest of the GPs in the State. Thus the State Government is required to create awareness among the GPs to avail the benefit of incentive fund for mobilization of additional funds as recommended by the Third SFC.

### **1.14 Conclusion.**

District Planning Committees were not made functional in 10 out of 12 districts. Out of 29 functions, only 26 functions were entrusted to PRIs. The State Government has neither transferred the functions nor given the administrative control to PRIs in implementation of devolved functions.

**1.15 Recommendations.**

- District Planning Committee should be made functional in all the districts.
- The State Government should expedite the devolution of funds, functions alongwith functionaries without delay.