

## CHAPTER-II

### **Utilisation of Twelfth Finance Commission grants by local bodies (Panchayati Raj Institutions)**

#### **2.1 Introduction**

The Twelfth Finance Commission (TFC) set up in the year 2005 recommended to augment the Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities.

The TFC has stressed the importance of public private partnership to enhance service delivery of solid waste management service in urban areas.

The TFC grants were to be released in two equal installments in July and January every year. The Finance Secretary of State was required to provide utilization certificate of grants spent by the local bodies. Release of further grants was to be made by GoI strictly on the basis of utilization certificates and information sent by State Finance Secretary. The TFC recommended grants of ₹907 crore for local bodies (₹803.00 crore for PRIs and ₹104.00 crore for ULBs) for the period from 2005-10 basing on which the Government of India (GOI) during 2005-09 released ₹642.40 crore (₹160.60 crore per annum) for PRIs and ₹83.20 crore (₹20.80 per annum) for ULBs.

Audit was conducted during April to June 2009 covering the period from 2005-09 through test check of records at office of the Principal Secretary to Government, Finance Department (FD), Panchayati Raj Department (PRD), Housing and Urban Development Department (HUDD), District Rural Development Agencies (DRDAs) of 12<sup>1</sup> out of 30 districts of the State, 26 out of 314 Panchayat Samities (PS) and 192 out of 6234 Gram Panchayats (GPs). Selection of these units was made on the basis of simple random sampling without replacement method.

The audit findings are discussed in the succeeding paragraphs.

#### **Audit findings**

#### ***Grants to Panchayati Raj Institutions***

#### **2.2 Receipt and utilisation of TFC Grant by Panchayati Raj Institutions**

The position of receipt and utilisation of TFC grants to PRIs during 2005-09 was as under:

<sup>1</sup> Baragarh, Bhadrak, Balasore, Dhenkanal, Deogarh, Ganjam, Koraput, Kalahandi, Khurda, Mayurbhanj, Rayagada and Sambalpur

*(₹ in crore)*

Year	Amount released by GOI	Amount released by State Government to DRDAs/SIRD <sup>2</sup>	UC submitted to GOI as of March 2009	UC not submitted as of March 2009	Amount kept in PL Account
2005-06	160.60	160.60	146.11	14.49	14.49
2006-07	160.60	160.60	146.60	14.00	14.54
2007-08	160.60	160.60	138.02	22.58	14.44
2008-09	160.60	160.60	75.80	84.80	14.01
<b>Total</b>	<b>642.40</b>	<b>642.40</b>	<b>506.53*</b>	<b>135.87</b>	<b>57.48</b>

*(Source: Panchayat Raj Department, Government of Orissa)*

*\*₹584.92 crore released to PD, DRDAs/SIRD for transfer to GPs/Block and balance ₹57.48 crore kept in PL Account of Project Director, DRDA, Khurda.*

### **2.2.1 Non submission of Utilisation certificates (UC)**

As per the provisions of the Orissa General Financial Rules and the sanction orders of the State Government, the utilisation certificates (UCs) of grants received were to be submitted to the Government by first June of the succeeding year. But out of ₹642.40 crore received during 2005-09, ₹135.87 crore remained unutilized including parking of ₹57.48 crore in PL Account and UCs for only ₹506.53 crore was submitted by the PRIs to the State Government as of June 2009. In selected units, UCs for ₹24.62 crore out of total receipt of ₹197.55 crore had not been submitted as of May 2009 despite being due since 1 June 2008 due to non-utilisation of grants and the position is indicated at **Appendix-II**.

Further, scrutiny of records of 192 GPs revealed that though these GPs utilized only ₹11.60 crore out of ₹14.20 crore released by DRDAs/ Government during 2005-09 for implementation of drinking water supply and sanitation schemes but have submitted UC for the full amount without actual utilization. The PR Department stated (October 2009) that all PDs of DRDA had submitted utilization certificates duly countersigned by them. The reply is not tenable as utilization certificates were submitted by the GPs without actual utilization of funds.

<sup>2</sup> Funds to GPs were routed through DRDAs up to 2007-08 and through State Institute of Rural development (SIRD) thereafter

### **2.2.2 Delayed transfer of grants**

Test check of records of selected GPs revealed that the funds amounting to ₹3.44 crore transferred by SIRD (October 2008-April 2009) were not credited to the respective TFC accounts of the GPs by the bank as of May 2009. Concerned Sarpanch and Project Directors of DRDAs stated (May-June 2009) that they had not received any information from SIRD regarding release of such funds. Thus, non-receipt of the funds by the GPs within the stipulated period of 15 days from the date of receipt from GoI, affected the formation of comprehensive action plan to absorb funds and implementation of different earmarked programmes<sup>3</sup> of the GPs and DRDAs during 2008-09.

The GOI guidelines prescribed transfer of TFC grants to PRIs accounts within 15 days of crediting the same to the State Government account and in case of delay in transfer of funds beyond 15 days, the State Government was liable for payment of interest equal to Reserve Bank of India rate (six per cent per annum). It was noticed that out of ₹642.40 crore received during 2005-09, ₹61.28 crore was retained (December 2005 – February 2008) by DRDA, Khurda in non-interest bearing personal ledger (PL) account as per the instructions of the State Government. Of the above, only ₹17.81 crore was transferred (June 2006-June 2007) to DRDAs with delays ranging from 163 to 235 days and the balance amount of ₹43.47 crore was not transferred to the PRIs as of March 2009. Interest of ₹5.85 crore though became due up to March 2009 for payment to PRIs no interest was paid by the State Government as of October 2009. *The Government admitted (October 2009) parking of fund in non interest bearing PL Account.*

Thus, delay in transfer of funds to the GPs affected the implementation of the schemes of water supply and sanitation.

### **2.2.3 Non utilization of TFC Grants sanctioned for maintenance of accounts and creation of database**

It was noticed that TFC grants of ₹57.48 crore received between November 2005 and February 2009 for maintenance of accounts and creation of database were parked in PL account by the State Government (PR Department). Though Government admitted such parking but did not furnish the reasons thereof. Test check of records of 192 GPs and information furnished by concerned Sarpanchs revealed that despite maintenance of cash book, annual accounts were not maintained in the format prescribed by the C&AG and no database was created in any of these GPs. Thus, due to parking of funds in PL account meant for creation of database, the ultimate aim of making the database to be freely available through VSAT to the general public could not be achieved. All the test-checked GPs and DRDAs confirmed (July 2009) the non-creation of required database.

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<sup>3</sup> Two programmes

1. Creation of database,
2. Operation and management of water supply and sanitation.

#### **2.2.4 Diversion of funds**

The responsibility of operation and maintenance of piped water supply system was transferred to PRIs (October 2006) along with the staff of Rural Water Supply and Sanitation wing of Rural Development Department. Test check of records of 26 selected PSs revealed that salary and wages of RWSS staff deployed at PS offices amounting to ₹1.58 crore was irregularly paid out of TFC funds by collecting the amount from GPs under their control irrespective of the GPs having any piped water supply system. It was seen that 154 GPs were not having any piped water supply scheme but have paid ₹73.84 lakh to the BDOs towards salary of RWSS staff working in Panchayat Samities. Thus, the GPs were deprived of scheme funds for incurring expenditure on targeted projects of water supply and sanitation programmes. The PRD stated (October 2009) that as per instruction of Finance Department the salary and wages of RWSS employees including SEMs were met out of TFC fund.

Similarly, though scheme funds were to be utilized by GPs for operation and maintenance of water supply and sanitation, yet ₹17.25 lakh was diverted by 31 GPs under 10 test checked DRDAs<sup>4</sup> for public distribution system, Sampoorna Grameen Rojgar Yojna, National Rural Employment Guarantee Scheme which remained unrecouped as of June 2009. The PD, DRDA, Rayagada while accepting the fact stated (May 2009) that action would be taken against the officials for such lapses.

Guidelines provide for utilization of the grants for improving the service delivery by the Panchayats and were to be utilized on operation and maintenance of water supply and sanitation. However, 192 test checked GPs spent ₹5.73 crore on inadmissible items of expenditure like construction of new roads and buildings etc. The PRD stated (October 2009) that there was certain instructions for construction of cement concrete roads and drains under TFC grant. The reply was not tenable as construction of cement concrete road was not covered under the guidelines.

#### **2.2.5 Unfruitful expenditure**

TFC emphasized the need for creation of database for enabling rational determination of gap between the cost of service delivery and capacity to raise resources as well as proper maintenance of accounts at grass root level through use of modern technologies and management system. As per the guidelines, the TFC grants were to be utilized in GPs. There was no provision to utilize the grants for payment of salary and wages of staff. It was noticed that ₹8.60 crore was spent on payment of remuneration of Computer Programmers working in DRDAs and Block offices<sup>5</sup> who were engaged for maintenance of computerized

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<sup>4</sup> DRDAs : (i) Rayagada: ₹ 4.91 lakh, (ii) Koraput: ₹ 2.66 lakh, (iii) Kalahandi: ₹ 5.94 lakh, (iv) Sambalpur: ₹ 0.43 lakh, (v) Baragarh: ₹ 0.77 lakh, (vi) Dhenkanal: ₹ 0.10 lakh, (vii) Bhadrak: ₹ 0.34 lakh, (viii) Deogarh: ₹ 0.40 lakh, (ix) Ganjam: ₹ 0.60 lakh and (x) Balasore: ₹ 1.10 lakh

<sup>5</sup> At ₹ 5000 per month up to June 2007 and ₹ 7000 from July 2007

cash book, trial balances, advance ledger, pay bill, feeding of NREGS data online etc contrary to the provision of guidelines. It was further noticed that despite payment of ₹28.11 crore including ₹19.51 crore out of EFC grant towards payment of wages to computer programmers of Blocks and DRDAs, database for GPs such as assets created, income from own sources, total population, beneficiaries under other poverty alleviation schemes etc was not created and were not made accessible through VSAT. Non-creation of database was confirmed by the test-checked DRDAs / GPs. The PRD stated (October 2009) that the wages to computer programmers were paid out of TFC fund as per instruction of Finance Department.

### **2.3 Monitoring and evaluation**

High Level Committee (HLC) headed by Chief Secretary was to monitor the progress of utilisation of grants on quarterly basis and mid-course corrections, if any, were to be made. The HLC met nine times since May 2005 against 16 meetings required, indicating deficiency in monitoring mechanism.

### **2.4 Conclusion**

A review of receipt and utilization of TFC grants revealed the following deficiencies. Funds remained unutilised for years in non-interest bearing personal ledger accounts and civil deposits with the treasuries. There was belated release of funds to PRIs. Utilisation certificates were not submitted in time. Funds were diverted for other purposes and even spent on inadmissible items. Irregular engagement of computer programmers at DRDA and block level and payment of wages from the TFC fund, databases were not created by GPs. None of the PRIs had prepared annual accounts in the formats prescribed by the CAG. Grants released for solid waste management remained blocked up to December 2008 as per Government directive and 51 *per cent* of available funds was spent within four months by adjusting previous bills.

### **2.5 Recommendations**

- State Government should ensure timely release of funds to PRIs within prescribed 15 days of receipt from GoI;
- Management of funds may be further streamlined to avoid any diversion/ misutilisation of funds;
- Government may adopt the format of accounts prescribed by the C&AG of India for PRIs and ensure maintenance of accounts in these formats;
- Creation of database for GPs may be accorded priority and completed within a specified time frame.