

CHAPTER 1

ACCOUNTS AND FINANCES OF THE PANCHAYTI RAJ INSTITUTIONS

1. Introduction

Seventy third Constitutional amendments gave constitutional status to Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular elections and regular flow of funds through Finance Commissions etc. As a follow up the states were required to entrust these bodies with such powers, functions and responsibility so as to enable them to function as institutions of local self government. In particular, the PRIs were required to prepare plans and implement schemes for economic development and social justice including those included in the Eleventh Schedule of the Constitution.

Post seventy third amendment the State Government enacted Himachal Pradesh Panchayati Raj Act 1994 and framed Himachal Pradesh Panchayati Raj (General) Rules 1997 and Himachal Pradesh Panchayati Raj (Finance, Budget, Accounts, Audit, Works, Taxation and Allowances) Rules 2002 to work as third tier of the government.

Himachal Pradesh attained Statehood in the year 1971. The comparative demographic and developmental picture of the state is given in Table 1. Himachal Pradesh has Fourth highest literacy rate (77.13 percent) among Indian states as per 2001 census. Agriculture, Horticulture dominates Himachal's economy.

Table 1: Important statistics of the State

Indicator	Unit	Ranking among States of Union
Population (in Lakh) 2001- Census	60.78	20
Population density (per sq.km.)	109	22
Rural Populatuion (%)	90.20	
Urban Populations (%)	9.80	-
Gender ratio Female per thousand male	968	8
Birth rate (per thousand)- 2008	17.7	23
Infant Mortality Rate (IMR) per thousand CSRS-2007	47	-
Literacy	77.13	4
Gross State Domastic Product (GSDP) ₹ in crore	42,278	-

(Source: Economic and Statistics Department Himachal Pradesh)

The comparative position of Panchayati Raj Institutions (PRIs) in the state of Himachal Pradesh in numerical, average population and average area terms is given below in Table 2:

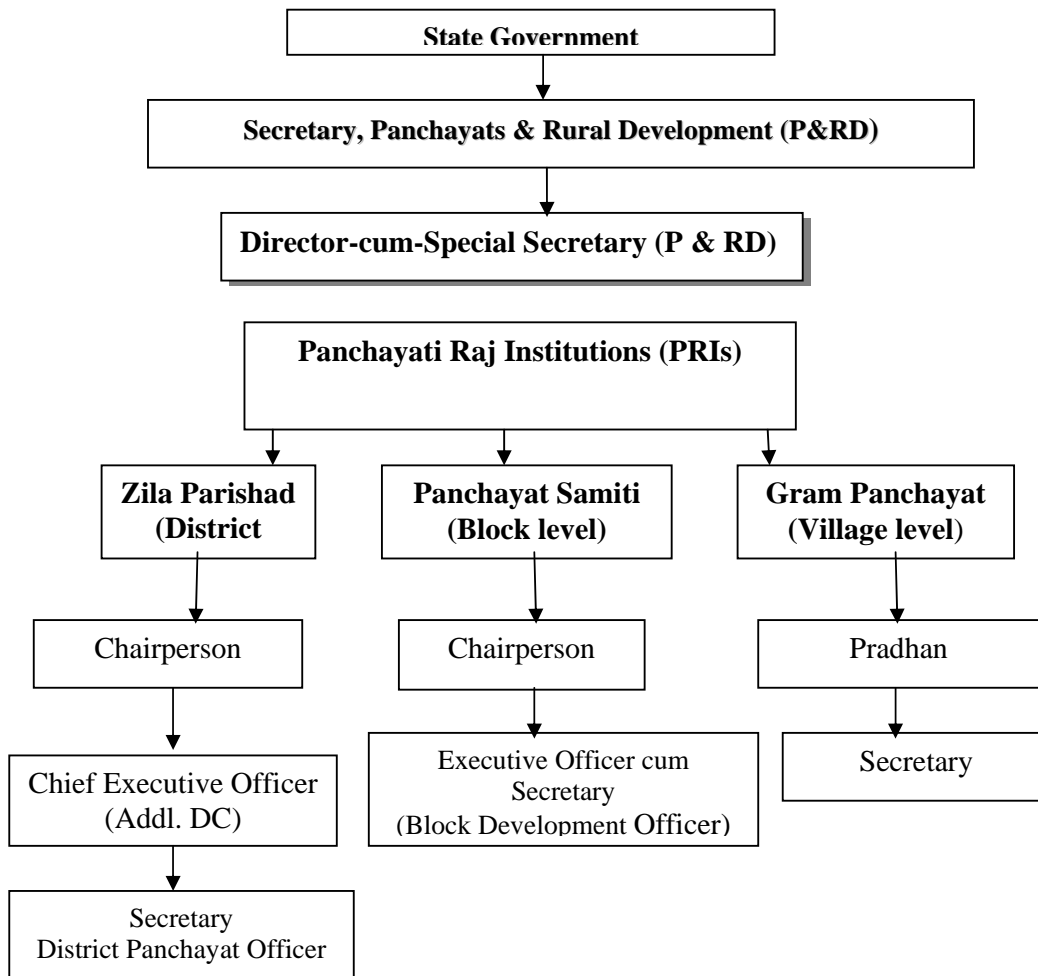
Table: 2: Comparative position of Local Bodies

Level of PRI	Number	Average Area in PRIs (Sq Km)	Average population	Remarks
Zila Parishad (ZP)	12	4639.42	456860	-
Panchayat Samites (PS)	77	-	72133	-
Gram Panchayats (GP)	3243	-	1619	-

The representatives of PRIs are elected after every five years. The last election of PRIs was held in December 2010.

1.2 Organizational Set up

The organograms given below depict the organizational structure of the State Government, Panchayati Raj 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 District Planning Committees.

As per Article 243-ZD of the Constitution of India, 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, but these are functional only in two districts (Chamba and Sirmour). Regarding non-functioning of DPC in the remaining 10 districts, reply from the Director, PRI is awaited (March 2010)

1.4 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,¹ etc. The following table shows the financial position of PRIs for the last five years:-

Table-3 Financial position of PRIs

(₹ 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
2008-09	6593.25	6175.75	735.15	0	338.10	13842.25	11765.91	2076.14	13842.05
2009-10	6986.96	5856.83	N.A.	N.A.	N.A.	12843.79	7966.53	4877.26	12843.79
Total	50669.58	36515.00	2568.07	32.00	2001.03	91785.68	62759.70	29025.78	91785.48

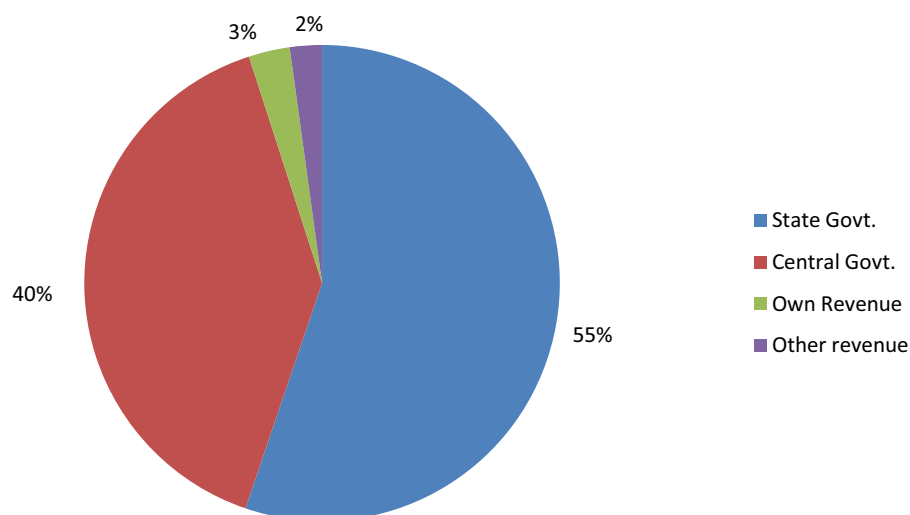
Sources- Director Panchayati Raj

It was however, noticed that all the funds provided by the Panchayati Raj Department to the PRIs have been shown as expenditure. The exact figures of expenditure by the PRIs were not available with the Panchayati Raj Department.

¹ Small Khokhas/shops given on rent.

Chart showing the trend of receipts during 2005-10 is given below:

Source of Revenue of PRIs during 2005-10



The major source of funds of PRIs during 2005-06 to 2009-10 was State Government (55%) and Central Government (40%) grants. The own revenue (3%) and other revenue (2%) is meager as compared to central and state grants.

1.4.1 Allocation of funds under Central/ State Schemes.

PRIs also receive funds from Rural Development Department (RDD) for various State Schemes and Centrally Sponsored Schemes. Three schemes namely i) Community Development Programme (CDP), ii) Atal Awas Yojna (AAY) and iii) Mahila Mandal Protsahan Yojna (MMPY) are hundred percent State Sponsored Schemes. The position of funds allotted to the PRIs under these schemes during 2005-10 is given below:-

Table-4 Position of funds allotted under these State Schemes

Year	Position of funds allotted under these State Schemes (₹ in lakh)		
	CDP	AAY	MMPY
2005-06	123.58	1169.43	60.00
2006-07	426.44	1556.05	60.00
2007-08	411.67	1525.38	75.00
2008-09	672.35	2971.82	74.85
2009-10	267.50	1993.00	75.00

Source – Director Rural Development Department.

Besides, seven schemes namely i) Samproon Gramin Rojgar Yojna (SGRY) ii) Swaran Jayanti Swarojgar Yojna (SGSY), iii) Mahatama Gandhi National Rural Employment Guarantee Scheme (MNREGS), iv) Indira Awas Yojna (IAY), v) Integrated Watershed Development Project (IWDP), vi) National Benefit Scheme and vii) Total Sanitation Campaign Project (TSC) are Centrally Sponsored Schemes.

While no funds were released during 2005-10 under National Benefit Scheme, the position of funds allocated to PRIs under other Centrally Sponsored schemes is given below:-

Table- 5 The position of allocation of Fund under major central schemes

(₹ in lakh)

Year	SGRY	SGSY	MGNREGS	IAY	IWDP	TSC
2005-06	2664.61	448.75	500.00	794.005	2919.705	661.06
2006-07	2441.06	1232.93	5075.15	1020.685	1936.765	270.065
2007-08	1399.66	1247.05	13454.86	1155.518	1659.58	1074.50
2008-09	21.12	1326.12	44128.14	2310.17	2938.06	1207.32
2009-10*	0	1124.00	41025.00	3237.00	1483.00	1417.00

Source – Director Rural Development Department

*Figures for 2009-10 provided by Director RDD are tentative

These Centrally sponsored and State sponsored schemes are implemented by the Gram Panchayats which are under the control of Panchayati Raj Department, but the funds are released by the Rural Development Department to the Gram Panchayats directly or through District Rural Development Agencies (DRDAs) which are registered bodies under Societies Registration Act 1960. The Director (PR) admitted (June 2009) that there was no linkage between DRDA and Panchayati Raj Department.

1.5 Accounting Arrangement

The PRIs are maintaining their accounts in the proformas prescribed under Himachal Pradesh Panchayati Raj General Rules 1997. Accounts of the Gram Panchayats are being maintained by the Panchayat Secretary appointed by the Director and Panchayat Sahayak appointed on contract basis by the Executive Officer cum Block Development Officer. In case of PS, the accounts are maintained by the Accountants. Accounts of ZP are maintained by the Government officials of the office of DPO-cum-Secretary, ZP. There are no arrears in maintenance of accounts.

The Eleventh Finance Commission (EFC) had recommended exercising control and supervision over maintenance of accounts of all the three tiers of PRIs by the CAG. The CAG and Ministry of Panchayati Raj, Government of India has recommended Model

Accounting Structure for PRIs in 2009, but the Government of Himachal Pradesh has not adopted these formats. The Director, Panchayati Raj Department stated (April 2011) that Accounting Software PRIAsoft prescribed by the Ministry of Panchayati Raj, Government of India has been adopted by the State Government and this software will be made operational in the current financial year. He further stated that the process of uploading data in the software would be started after imparting necessary training to the functionaries of the Gram Panchayats.

1.6 Database of PRIs

As per recommendations of EFC, specific grants provided by the Government of India were to be utilized 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. However, the State Government has not yet implemented the database formats.

1.7 Audit Arrangements

The Local Audit Department is responsible for conduct of audit of Panchyat Samitis, Zila Parisads, 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 have proper financial control on income and expenditure. The agency is required to conduct audit of all the three tiers of PRIs annually. The position of internal audit conducted during 2010-11 was as under:-

Table: 6 Position of Internal Audit

Name of Institution	Total units	No. of units audited	No. of units audited	No. of units not audited	Percentage of short fall
1. Zila Parishad	12	12	01	11	92
2.Panchayats Samiti	77	77	05	72	94
3. Gram Panchayats	3243	1947	763	984	51

Source: Director PRI

Director PRI stated (May, 2011) that targets could not be achieved due to General Electioin of Panchayati Raj Institutions and shortage of staff.

Comptroller and Auditor General of India conducts audit of PRIs under Technical Guidance and Support (TGS) arrangement as requested by the State Government vide Letter no.PCH-HC (10)10/2002-23447 dated 8th December 2003.

1.8 Audit coverage

Audit of accounts of all the 12 ZPs, 25 PSs (out of 77) and 306 GPs (out of 3,243) was conducted during 2010-11 (**Appendix-1**). Important audit findings are discussed in the succeeding paragraphs.

1.9 Internal Control Mechanism

1.9.1 Non-preparation of Budget estimates.

Rule 38 of Himachal Pradesh Panchayati Raj (HPPR) Rules, 2002 provides that the annual Budget estimates of ZPs and PSs showing the probable receipts and expenditure for the following year are required to be prepared and passed by the PS or ZP, as the case may be, by majority vote, before the commencement of the next financial year.

It was observed that out of 12 ZPs and 25 PSs test-checked, four ZPs and 9 PSs had not prepared the annual budget estimates for the period 2007 and 2010. However, an expenditure of ₹ 6.54 crore² had been incurred between 2007 and 2010 without approval of the estimates which was irregular (**Appendix-2**).

While attributing the reasons for non preparation of budget estimates to shortage of staff, the concerned PRIs stated (April 2010 to February 2011) that annual budget estimates would be prepared in future.

1.9.2 Non maintenance of registers

Rule 31 of HPPR Rules, 2002 stipulates that every PRI shall maintain important records, register, forms, etc., under the provision of the rules or the Act or any other law.

It was observed that important registers like stock register, immovable property register, works register, muster roll register, etc. were not being maintained in 3 PSs and 61 GPs during for the period 2005-10 (**Appendix-3**). Due to non maintenance of records correctness of financial transactions could not be ascertained. Reasons for non maintenance of records were not intimated by the concerned PRIs. However, they stated (April 2010-March 2011) that the records would be maintained in future.

² ZPs: ₹ 0.78 crore and PSs ₹ 5.76 crore

1.9.3 Bank reconciliation statements not prepared

Rule 15 (10) (b) of the HPPR Rules, 2002 provides that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. The difference, if any, shall be explained and accounted for in a foot note in the cash book.

However, it was noticed that difference of ₹ 5.09 crore (**Appendix-4**) between cash books and pass books at the close of the year 2009-10 was not reconciled by 100 PRIs³. The authenticity of accounts of these PRIs could not be vouchsafed in the absence of non reconciliation with bank statements and possibility of misappropriation of funds could not be ruled out. The officers of the concerned PRIs stated (April 2009 to March 2010) that the differences would be reconciled. The reply was not acceptable as codal provisions had not been followed.

1.9.4 Outstanding Inspection Reports.

As a result of audit of PRIs by Pr. AG office under TGS, 1,521 inspection reports containing 10,356 paras were issued to the concerned PRIs during 2005-11 of this only 2 IRs and 203 paras could be settled leaving 1519 IRs and 10110 paras outstanding as of 31.03.2010 as per details given below:-

Table-8

Sr. No.	Year of issue of Inspection Reports	No. of Inspection Reports	No. of paras issued	Outstanding Paras as on 31.03.2009	No. of paras settled	No. of outstanding IRs/Paras	
						IRs	Paras
1.	Upto 2007-08	531	2764	2726	119	529	2607
2.	2008-09	320	2687	2678	48	320	2630
3.	2009-10	336	2501	2501	32	336	2469
4	2010-11	334	2404	0	0	334	2404
	Total	1521	10356	7905	199	1519	10110

Increasing trend of outstanding Inspection Reports and paras is indicative of non-compliance of audit observations and has resulted in erosion of accountability.

1.10 Twelfth Finance Commission grants

The Twelfth Finance Commission (TFC) made recommendations on the measures needed to augment the Consolidated Fund of States to supplement the resources to Panchayats and Municipalities on the basis of recommendations of State Finance

³ 4 ZPs: ₹ 1.13 crore; 08 PSS : ₹ 1.06 crore and 88 GPs: ₹ 2.90 crore

Commission (SFC). The main objective of the scheme was to improve the service delivery of the Panchayats in respect of water supply and sanitation besides creating data base in the Panchayats. A sum of ₹ 88.20 crore (at the rate of ₹ 29.40 crore each year) were allocated and released in six installments to PRIs during 2007-08 to 2009-10. Finance Department had also issued utilization certificates for the whole amount.

1.10.1 Utilisation of TFC Funds

As per para 6.2 of the Ministry of Finance, Government of India's (GOI's) guidelines for release and utilization of grants recommended by TFC, the State Finance Secretary would be required to provide a certificate within 15 days of the release of each instalment by the GOI under his signature indicating the dates and amounts of local grants received by the State from the GOI and further released to the PRIs and ULBs.

1.10.2 Blockage of TFC grants

During 2010-11 records of 590 PRIs (ZPs: 8; PSs: 18 and GPs: 564) were scrutinized.

The position of funds received and utilization there against by these units during 2006-10 was as under:

Table-7

(₹ in crore)

Year	Opening balance	Receipts	Total	Expenditure	Balance
2006-07	0	4.52	4.52	2.80	1.72
2007-08	1.72	5.13	6.85	2.99	3.86
2008-09	3.86	5.43	9.29	3.10	6.19
2009-10	6.19	5.99	12.18	5.29	6.89
Total		21.07		14.18	

From the above table it would be seen that during 2006-10 out of ₹ 21.07 crore released to the test checked PRIs, only ₹ 14.18 crore was utilised by them leaving unspent balance ₹ 6.89 crore as of March, 2010.

1.10.3 Delay in release of TFC grant.

As per guidelines for utilization of TFC grants State Government is required to transfer the grants released by the Centre to PRIs and ULBs within 15 days from the date of its credit into State Government account. During 2009-10 there was no delay on the part of State Government to release of grants to ZPs/PSs and GPs. However, there is a delay in release of grants to GPs by ZPs/PSs ranging between one and 45 months during 2006-10.

The delay in release of grants was attributed by Executive Officers of PSs and Secretaries of ZPs to late holding of meetings of PS, non receipt of shelf of works from elected members of ZPs, PSs. and GPs.

1.10.4 Diversion of funds

As per guidelines priority should be given to utilise the TFC grants on operation and maintenance (O&M) cost of water supply and sanitation schemes. It was, however, noticed that funds amounting to ₹ 85 lakh were utilized by GPs during 2006-07 and 2009-10 on 383 inadmissible works like construction of Pucca Path, Retaining Walls, Community Halls, Mahila Mandal Bhawan and Sarais etc.

1.10.5 Non-receipt of UCs from GPs

As per directions issued (July 2005) by the Director (PR) the PRIs would submit the utilization certificate of TFC grants to District Panchayat Officers (DPOs) for further submission to the State Government within six months from the date of receipt of the grant. As per information collected from Director Panchayati Raj, it was observed that utilisation certificates for ₹ 32.85 crore in respect of the grant released were not received from Zila Parishads, Panchayat Samitis and Gram Panchayats whereas State Government is sending UCs to Government of India every year.

1.10.6 Monitoring

As recommended by the TFC, a High Level Monitoring Committee (HLC) headed by Chief Secretary, was constituted by State Government in April, 2005 at State level for monitoring proper utilization of grants. The meeting of the HLC was required to be held every quarter and HLC was responsible through its quarterly meeting for monitoring of both physical and financial targets and ensuring adherence to the specific conditions attached to each grant. Against 20 meetings required to be convened only three meetings were held in Jan 2006, July 2006, and Feb, 2010. The above cases of delay in the release of grants by the ZPs and PSs, non- utilization of grants by the PRIs and irregularities in utilization of TFC grants, etc. are indicative of the ineffective monitoring mechanism.