CHAPTER-II

TRANSACTION AUDIT

2.1 Non-preparation of Budget estimates.

Expenditure of Rs. 3.13 crore incurred on works by the PRIs without preparation and sanctioning of budget estimates.

Rule 38 of HPPR Rules 2002 provides that the annual Budget estimate of ZP and PS showing the probable receipts and expenditure for the following year are required to be prepared and approved within the prescribed date by the authorized body.

It was observed that out of 25 PSs test checked, nine PSs had not prepared the estimates for the period 2005-08. However, an expenditure of Rs. 3.13 crore had been incurred between 2005-06 and 2007-08 without approval of the estimates which was irregular **(Appendix-3)**. In the absence of budget estimates, proper financial planning of PRIs with reference to actual expenditure incurred on developmental schemes could not be ascertained in audit.

The concerned PRIs stated (April 2008 to March 2009) that in future annual budget estimates would be prepared.

2.2 Retention of cash in hand.

The PRIs failed to maintain prescribed limit for retention of cash-in-hand.

Rule 18 (2) and 10 (3) of HPPR Rules 2002 provide that the ZP, PS and GP may allow accumulation of cash in the departmental chest upto maximum limit of Rs. 5000, Rs. 2500 and Rs. 1000 respectively at a time.

In Banjar and Seraj PSs, cash ranging betwee Rs. 2643 and Rs.18,537 respectively was retained at a time during 2003-08 in violation of provision of rules. In 16 GPs **(Appendix-4)** the cash ranging between Rs. 1015 and Rs. 1,53,313 was retained in chest during 2003-08. The retention of cash in excess of prescribed limit was irregular and its temporary misappropriation could not be ruled out. While admitting the facts, the concerned PRIs stated (May, 2008 to March, 2009) that such irregularities would not be repeated in future.

2.3 Non-reconciliation of cash balances.

There were un-reconciled differences of Rs. 191.85 lakh in cash books and bank accounts of PRIs.

Rule 15 (10) (b) of the HPPR Rules 2002 provides that the balances of the pass book of the ZP/PS/GP shall be reconciled every month.

In two ZPs and 10 PSs, difference amounting to Rs. 78.80 lakh and Rs. 29.78 lakh respectively **(Appendix-5)** remained un-reconciled for the year 2007-08 between cash book and pass book. Similarly, in 48 GPs, difference of Rs. 83.27 lakh **(Appendix-5)** had also not been reconciled for the year 2007-08 between cash books and pass books. Due to non-reconciliation of cash balances, authenticity of accounts of these PRIs could not be ensured. The officers of the concerned PRIs stated that differences would be reconciled. The reply was not tenable as codal provisions of rules remained unfulfilled.

2.4 Awaited Utilisation Certificates (UCs).

The PRIs failed to submit the UCs for Rs. 29.59 crore within stipulated period.

Government of HP vide notification (March 1971) directed that the work or service for which grant-in-aid (GIA) has been received from the Government should be utilised within a period of two years from the date of receipts of GIA.

The Director (PR) has been releasing various grants to PRIs for developmental schemes and concerned institutions were required to furnish UCs within two years from receipt of grants. It was noticed that UCs for Rs. 29.59 crore (2005-06 Rs. 2.06 crore and 2006-07 Rs. 27.53 crore) were awaited as of March 2008. The Department stated (June, 2009) that the pending UCs mainly relate to construction of Panchayat Ghars which has been delayed due to time involved in process of transfer of land to PRIs.

2.5 Outstanding advances.

Eleven GPs did not take any action to recover/adjust the outstanding advances of Rs. 4.98 lakh.

Rule 30 of the HPPR Rules 2002 provides that whenever any advance is paid to an office bearer or officer/official of GP for carrying out the developmental works, a record thereof shall be kept in the register of temporary advances and such advances should be adjusted regularly and promptly.

Test check of records of 11 GPs out of 289 GPs revealed that Rs. 4.98 lakh were sanctioned as advances to various office bearers such as Pradhan, Up-pradhan and Secretary for carrying out the developmental activities but had remained unadjusted **(Appendix-6)** as of March 2008. In certain cases advances remained outstanding for the periods ranging from two years to 14 years. As some advances are pending for a long time, the possibility of recovery appears remote and will have to be treated as loss.

On this being pointed out, the concerned PRIs stated (May 2008 to January 2009) that efforts would be made to recover the advances.

2.6 Blocking of funds.

Funds amounting to Rs. 24.59 lakh. earmarked for minor irrigation schemes remained un-utilised in PLA.

The PSs had been maintaining Personal Ledger Account (PLA) for crediting the grants received from Government for execution of minor irrigation and water supply scheme in rural areas. As per condition of sanction, the funds are required to be drawn within one month and utilized within one year from the date of sanction.

Scrutiny of records revealed that in five PSs **(Appendix-7)** there was opening balance of Rs. 10.19 lakh as on 31 March 2005 and Rs. 25.32 lakh was received between 2005-06 and 2007-08. Thus the total funds of Rs. 35.51 lakh were available for execution of schemes against which expenditure of Rs. 10.92 lakh had been incurred leaving unspent balance of Rs. 24.59 lakh as of March 2008 in PLA. Non-utilisation of funds placed in PLA has resulted in unnecessary blocking of funds and purpose of sanctioning funds also stood defeated. No action had been taken to refund the funds in terms of conditions of sanction. The concerned PRIs stated (July 2008 to December 2008) that funds would be utilized after getting the schemes approved by elected house.

2.7 Diversion of funds.

PRIs did not spend the prescribed SGRY funds of Rs. 43.58 lakh for the benefit of SC/ST living Below Poverty Line.

Para 4.3 of guidelines of Sampooran Gramin Rojgar Yojna (SGRY) provides that 22.5 percent of annual allocation of PS must be spent on individual beneficiary/group schemes for the benefit of SC/STs living Below the Poverty Line. Diversion of funds meant for this purpose was not permitted.

Out of Rs. 333.70 lakh allocated between 2005-08 to three PSs for 413 schemes, a sum of Rs. 43.58 lakh (22.5 percent) **(Appendix-8)** was required to be spent on individual beneficiaries/group schemes of SC/STs living below the poverty line. It was, however, noticed that out of 413 schemes, only 13 schemes costing Rs. 1.98 lakh were sanctioned for individual beneficiaries/group schemes of SC/STs living below poverty line. Thus the sum of Rs. 43.58 lakh meant for individual benefit of SC/STs living below the poverty line was diverted to other programmes of SGRY scheme.

The concerned EOs stated (July 2008) that while sanctioning the schemes, the guidelines would be followed in future.

2.8 Failure to utilize the funds resulted in non-completion of schemes.

Non-utilisation of funds by the PRIs delayed the release of subsequent instalment from GOI amounting to Rs. 75.83 lakh.

Under Rule 15.6.1. of guidelines of Sawajaldhara scheme, Government of India, (GOI) had been releasing the funds in two equal instalments for execution of schemes. The second instalment of the scheme was to be released by GOI after utilisation of 60 percent of the funds released in first instalment.

Test check of records of ZP Bilaspur (January, 2009) revealed that an amount of Rs. 112.31 lakh was sanctioned (2005-06) by GOI for implementation of scheme. Out of this, Rs. 75.83 lakh were released to the Panchayats/Executing agencies by ZP during 2005-06 to 2006-07 as first instalment for execution of developmental schemes and remaining funds of Rs. 36.48 lakh were still lying with ZP. Since the utilization certificates for the amount of first instalment of Rs. 75.83 lakh released during 2005-07 had not been furnished by the Panchayat/Executing agencies as of January 2009, GOI had not released the second instalment for execution of developmental schemes. Thus, non-utilisation of the funds released in first instalment for these schemes has resulted in delay in getting the second instalment from GOI besides depriving the public from intended benefits from the schemes. Further, the unspent amount of Rs. 36.48 lakh lying with the ZP had also resulted in blocking of funds. The Secretary stated

(January, 2009) that concerned agencies have been asked to submit UCs immediately so that second instalment could be got released from GOI.

2.9 Retention of un-utilised amount after completion of works.

ZP Hamirpur and Bilaspur retained un-utilised funds to the tune of Rs. 11.88 lakh.

(a) Funds of Rs. 40.16 lakh were placed by the Director PR at the disposal of ZP Hamirpur between June 1999 and January 2004 for construction of composite building for Zila Parishad Bhawan and office of DPO. The funds were kept in a bank and subsequently funds of Rs. 36.80 lakh was released to the Executive Engineer (EE) Himachal Pradesh Public Works Department (HPPWD) Hamirpur between June 1999 and May 2005 for execution of the work. The construction of composite building was completed by the HPPWD in March 2006 at a total cost of Rs. 36.80 lakh. However, the balance amount of Rs. 5.88 lakh inclusive of interest of Rs. 2.52 lakh was lying with the ZP as unspent in bank and this has resulted in blocking of funds since May 2005.

The Secretary Zila Parishad stated (December 2008) that balance fund would be utilized for construction of garage for which approval will be obtained from the Director (PR). The reply was not tenable as no action had been taken either to refund or utilize this amount since May 2005.

(b) Similarly funds of Rs. 25.00 lakh were sanctioned (1998-2002) for the construction of Zila Parishad Bhawan, Bilaspur. The work had been completed (2001) by the E.E (RD) Mandi at a total cost of Rs. 19.00 lakh against the estimated cost of Rs. 20.98 lakh. The building was put to use in March 2001 after its inauguration. However, the remaining funds of Rs. 6.00 lakh were lying with Zila Parishad as of January 2009. Thus non-utilisation/ refund of unspent balance has led to blocking of funds since March 2001. The Secretary Zila Parishad stated (January 2009) that the funds would be utilized for construction of guest house/meeting hall. The reply was not tenable as no such proposal has been sent to the Director (PR) and funds in excess of estimated cost were retained in ZP, Bilaspur.

2.10 Non-commencement of works.

2.10.1 Non-finalisation of sites by the Panchayats resulted in non-construction of Panchayat Ghars besides non-utilisation of Rs.72.00 Lakh.

Funds of Rs. 72.00 lakh were sanctioned (2005-07) for the construction of 37 Panchayat Ghars in six[4] Panchayat Samities of Chamba,Kangra & Mandi districts which were required to be completed within one year. It was, however, observed that construction of these Panchayat Ghars had not been started even after expiry of stipulated period and funds were lying as unspent in the bank accounts of the Panchayat Samities. The concerned PRIs stated (July 2008 to December 2008) that these works could not be started due to non-finalization of sites and non-execution of agreements by the Panchayats. The reply was not tenable as the concerned Panchayats failed to ensure the availability of sites.

2.10.2 Failure of Zila Parishad to finalise the site for the construction of Zila Parishad Bhawan Shimla resulting in blocking of funds of Rs. 52.00 lakh.

Administrative Approval and Expenditure Sanction (AA&ES) for construction of four storeyed Zila Parishad Bhawan at Sanjauli, Shimla was accorded (September, 1997) for Rs. 25.00 lakh. Pursuant to this, the funds of Rs. 25.00 lakh were released between 1997-98 and 2001-02 to ZP Shimla. An amount of Rs. 27.23 lakh was also released (March 2007) for the construction of 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 finalisation of drawings was taken up (1998) with Town & Country Planning Department (TCP). However, keeping in view the facts that site was very steep and sensitive from traffic point of view, the Restricted Area Committee (RAC) of TCP rejected (March 2004) the site for proposed construction. It was further noticed that new site near RTO office at Shimla was selected (September 2005) and an amount of Rs. 2.48 lakh was paid (May 2007)

[4] Indora Rs. 17.00 lakh, Lambagaon Rs. 8.00 lakh, Mehla Rs. 14.00 lakh, Nagrota Surian Rs. 6.00 lakh, Nurpur Rs.14.00 lakh and Seraj Rs. 13.00 lakh.

to Forest department for diversion of land for non forestry purpose. An estimate for Rs. 116.37 lakh was got prepared (July 2007) from Public Works Department for the construction of Zila Parishad Bhawan inclusive of provisions for residences of District Panchayat Officer and Chairman of Zila Parishad. Accordingly revised AA&ES for Rs. 116.37 lakh was accorded (September 2008) by the Secretary, Zila Parishad.

Though funds of Rs. 52.00 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 April 2009. Non-construction of Zila Parishad Bhawan has resulted in blocking of funds of Rs. 25.00 lakh since 2001-02 and Rs. 29.00 lakh since March 2007 besides escalation in estimated cost by Rs. 91.37 lakh. The Secretary Zila Parishad stated (October 2008) that the matter for approval of drawings has been taken up with TCP and work will be started on receipt of approval.

2.11 Unfruitful expenditure on incomplete works.

PRIs failed to complete the works within stipulated period resulting in unfruitful expenditure of Rs. 42.68 lakh.

As per guidelines of Sampooran Gramin Rojgar Yojna (SGRY), the works sanctioned should be completed within one year and in special circumstances within two years.

Scrutiny of records revealed that in six PSs and eight GPs, 83 works costing Rs. 73.58 lakh (PSs: 47 works costing Rs. 37.77 lakh and GPs: 36 works costing Rs. 35.81 lakh) were approved for execution during 2003-08 **(Appendix-9)**. These works were required to be completed within one year. However, these works were lying incomplete even after expiry of the stipulated period. An expenditure of Rs. 42.68 lakh (PSs: Rs. 22.71 lakh and GPs: Rs. 19.97 lakh) has been incurred leaving balance of Rs. 30.90 lakh (PSs: Rs. 15.06 lakh and GPs: Rs. 15.84 lakh) unspent as of March 2009. Thus non-completion of these works even after stipulated period has resulted in unfruitful expenditure on incomplete works besides denying the public from intended benefits. The concerned PRIs stated (April 2008 to January 2009) that the works could not be completed due to local dispute at sites and lack of interest by concerned GPs.

2.12 Excess expenditure on material component.

Employment opportunities of 15000 mandays were denied due to incurring of expenditure on material component in excess of prescribed limit under SGRY scheme.

As per instructions issued (July 2003) by the Government, the expenditure on labour and material component was to be maintained in the ratio of 60:40 for works executed under SGRY scheme.

Test check of 23 GPs revealed that in violation of the above norms, expenditure of Rs. 48.32 lakh was incurred on material component on 426 works costing Rs. 84.38 lakh under SGRY schemes during 2002-07 against the admissible expenditure of Rs. 33.75 lakh **(Appendix-10)**. This has resulted in excess expenditure of Rs. 14.57 lakh on material component and denied the employment opportunities of 15000 mandays.

On this being pointed out in audit, no reasons for excess expenditure on material component were advanced by any of GPs.

2.13 Purchase of material.

Material worth Rs. 2.52 crore was purchased by 33 GPs without inviting the quotations/tenders.

Rule 67 (5) (b) of the HPPR Rules 2002 provides that the purchases of stores for more than Rs. 1000/- but less than Rs. 50,000/- are to be made by inviting quotations and for purchases above Rs. 50,000/- tenders are required to be floated.

It was observed in 33 GPs out of 289 GPs, that material costing Rs. 2.52 crore **(Appendix-11)** was purchased during 2003-08 without inviting quotations. As such the purchases were irregular and the possibility of payment of higher rate of material could not be ruled out. The concerned GPs stated (April 2008 to February 2009) that in future the purchases would be made as per rules.

2.14 Fictitious payments on Muster Rolls.

Fictitious payments due to depiction of same labourer in the Muster Rolls at two places at the same time.

Muster rolls are required to be maintained for each work by the executing agencies in terms of Rule 102 of HPPR Rules 2002. As per provisions envisaged, the attendance of labourers should be recorded daily.

Scrutiny of Muster rolls in 17 GPs **(Appendix-12)** revealed cases of doubtful payments made between 2003-07 as same labourers were shown as employed at two places at the same time. As such the possibility of fictitious payments can not be ruled out. The GPs stated (April 2008 to March 2009) that the matter would be investigated. The reply highlights the fact that no checks have been exercised for identification of labourers actually employed for execution of developmental works.

2.15 Outstanding rent.

Six PSs and ten GPs failed to realize the rent of shops amounting to Rs. 9.35 lakh.

The PSs and GPs had been maintaining shops in their jurisdiction and these were rented out to the public on monthly rental basis for enhancing the resource base of the PRIs.

It was noticed that in 16 PRIs (6 PSs and 10 GPs), an amount of Rs. 9.35 lakh (PSs Rs. 2.96 lakh and GPs Rs. 6.39 lakh) on account of rent of shops was outstanding as of March 2008 **(Appendix-13)**. These amounts were outstanding for a period ranging from one to six years. The concerned PRIs stated (July 2008 to March 2009) that action would be taken to recover the outstanding rent.

2.16 Non-recovery of house tax.

Thirty four GPs failed to realize the house tax which could have been utilized for developmental works.

Rule 33 of HPPR Rules 2002 provides that the Secretary of the GP shall see that all revenue are correctly, promptly and regularly assessed, realised and credited to the accounts of funds of the Panchayat concerned.

In 34 GPs, an amount of Rs. 6.43 lakh on account of house tax for the period 2003-08 was pending recovery as of March 2008 **(Appendix-14)**. This was indicative of ineffective monitoring on the part of GPs and resulted in non-realisation of revenue which could have been utilized for developmental works of the concerned GPs. Moreover, the GPs had not taken any action to levy penalty on the defaulters for non-payment of house tax in terms of provisions contained in Section 114 of HP Panchayati Raj Act, 1994. The concerned GPs stated (May 2008 to March 2009) that efforts would be made to recover the house tax.

2.17 Non-recovery of duty.

Revenue of Rs. 2.78 lakh remained un-realised on account of installation/renewal charges of Mobile Towers in 23 PRIs.

HP Government authorised (November 2006) the GPs to levy duty on installation of mobile communication towers at the rate of Rs. 4,000/- per tower and collect annual renewal fee at the rate of Rs. 2,000/- per annum for towers installed in their jurisdiction.

In 23 GPs, 52 Mobile towers were installed during 2006-2008 **(Appendix-15)** in their jurisdiction but the installation/renewal charges of Rs. 2.78 lakh were not recovered from the concerned Mobile Companies as of March 2008. This has deprived the GPs of its due share of revenue. The concerned GPs stated (April 2008 to March 2009) that action would be taken to recover the dues.

2.18 Non maintenance of records.

Two ZPs, ten PSs and forty six GPs failed to maintained the important records.

Rule 34 of HP Panchayati Raj General Rules 1997 read with rule 31 of HPPR Rules 2002 provides that every GP shall maintain important records such as stock register, stock material register, demand and collection register, immovable property register, works register and muster roll issue register etc.

It was observed that the above mentioned records were not being maintained in 2 ZPs out of 6 ZPs, 10 PSs out of 25 PSs and 46 GPs out of 289 GPs test checked for the period 2003-08 **(Appendix-16).** Hence the correctness of financial transactions could not be ascertained. On this being pointed out, the concerned PRIs stated (April 2008 to March 2009) that action would be taken to maintain the records.

2.19 Twelfth Finance Commission.

2.19.1 The Twelfth Finance Commission (TFC) made recommendations on the measures needed to augment the consolidated funds of States to supplement the resources of PRIs and ULBs. The main objective of TFC recommendations was to improve the service delivery of the PRIs in respect of water supply and sanitation besides creating of data base in the PRIs. The position of allocation, release and utilization of TFC grants during the period 2005-08 was as under:-

(Rs. in crore)

Year	Allocation	Release	Utilization of funds
2005-06	29.40	29.40	29.40
2006-07	29.40	29.40	29.40
2007-08	29.40	29.40	29.40
	88.20	88.20	88.20

(Source Finance Department)

The position of utilization of TFC funds in respect of test checked PRIs during 2005-08 is as under:-

(Rs. in crore)

Year	Number of PRIs units audited	Funds released	Expenditure incurred	Balance unspent
2005-06	119	10.91	0.60	10.31
2006-07	630	14.21	6.37	7.84
2007-08	728	7.91	12.60	(-)4.69
Total		33.03	19.57	13.46

Evidently the utilization of funds by these PRIs was to the extent of 59.24 percent only during 2005-08 which was not encouraging. Moreover it is evident that the figures of expenditure maintained at state level is not based on actuals.

Test check of records of 12 ZPs, 16 PSs and 700 GPs supplemented by the test check of records of four District Panchayat Officers(DPOs) have revealed the following:-

2.19.2 Delay in release of TFC grant by State Government.

As per TFC guidelines, 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.In case of delayed transfer of grants, the State Government was required to pay interest at RBI bank rates for the delayed transfer.

The release of 1st installment for the year 2005-06 was delayed by 45 days to DPOs by the Government. Further delay in release of grants to ZP, PS and GPs by the DPOs of the State was ranging between 9 days to 746 days during the year 2005-06. The delay in release of grant in the four test checked DPOs to ZP, PS and GPs ranged between 11 days to 265 days during 2006-07 and 2007-08.However it was seen that the State Govt. did not pay interest for the delayed release. The test checked DPOs stated that due to shortage of staff the grant could not be released within stipulated time.

2.19.3 Blocking of funds.

As per TFC guidelines, 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 certifying the dates and amounts of local grants received by the State from the GOI and the dates and amounts of grants released to the PRIs and ULBs. As per directions issued (July 2005) by the Director (PR) the utilization certificate of TFC grants will be submitted by the concerned PRI to DPO for further submission to State Government within six months from the date of receipt of the grant in PRIs account.

The Secretaries of the concerned PRIs stated (September, 2008) that due to delay in finalization of site and disputes by the public at site, the amount could not be utilised.

2.19.4 Diversion of funds.

As per guidelines, TFC funds were required to be utilised on water supply and sanitation schemes. It was, however, noticed that an amount of Rs. 2.23 crore was incurred by GPs during 2006-07 and 2007-08 on 450 inadmissible schemes like construction of Pucca Path, Retaining Walls, Community Halls, Mahila Mandal Bhawan and Sarains etc.

2.19.5 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. No meeting of the said committee was held except for one meeting held on 17th January 2006. The above cases of delay in the release of grants by the State Government and the utilization by the PRIs, diversion of TFC grants, irregularities in utilization of TFC grants etc., are indicative of the ineffective functioning of the HLC. The Director, Panchayati Raj stated (May 2009) that meetings of the committee was to be convened by the Finance Department being Nodal Department for this purpose.

2.20 Conclusion.

The PRIs were not preparing budget estimates which is the first step to ensure financial propriety in execution of various developmental projects. Irregularities like retention of cash beyond permissible limit, outstanding advances, non-submission of UCs and purchases without quotations were noticed. Poor planning exceptionally non-identification of site lead to non-start/non-completion of various works. This resulted in blocking of funds, depriving the public of benefits of schemes and delay in release of subsequent instalments by GOI. The irregularities like outstanding rent of shops, house tax and non-realization of fees for the installation of mobile towers were also noticed. Funds allotted under TFC were not utilized fully and cases of diversion of funds other than water supply and sanitation were also noticed. High Level Committee (HLC) was not functioning effectively with the result that utilization of grants could not be monitored properly.

2.21 Recommendations.

- ➢ The budget estimates should be prepared and sanctioned before incurring of expenditure.
- ➢ Effective steps should be taken for completion of the schemes/works in a time bound period.
- ➢ Purchases should invariable be made only after inviting the quotations/tenders to ensure competitive rates of material.
- ➢ Effective financial mechanism should be developed so that outstanding revenue could be realized for developmental works.
- ➢ Records should be maintained as per provision in the rules besides ensuring timely submission of UCs.
- ➢ Priority should be accorded to utilize the funds under TFC for the purpose for which sanctioned.

Shimla
Dated

(Tara Chand Chauhan)
Deputy Accountant General
Local Bodies Audit & Accounts
Himachal Pradesh

Countersigned

(Geetali Tare)
Pr. Accountant General (Audit)
Himachal Pradesh