

CHAPTER I

AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

Uttar Pradesh is the most populous state of India with a population of 16.61 crore out of which about 80 per cent live in rural areas. With the objective of overall development of the rural population, the Uttar Pradesh Panchayati Raj Act was enacted in 1947. Subsequently, with a view to decentralize powers and institutionalize a three tier structure of local self government at the District, Kshetra and Village levels, the Uttar Pradesh Kshetra Panchayat and Zila Panchayat Act was enacted in 1961 which also empowered the state legislature to ensure their financial accountability. There are 70 Zila Panchayats, 820 Kshetra Panchayats and 52002 Gram Panchayats in the state. Panchayats are elected every five years and the last election was held in the year 2000.

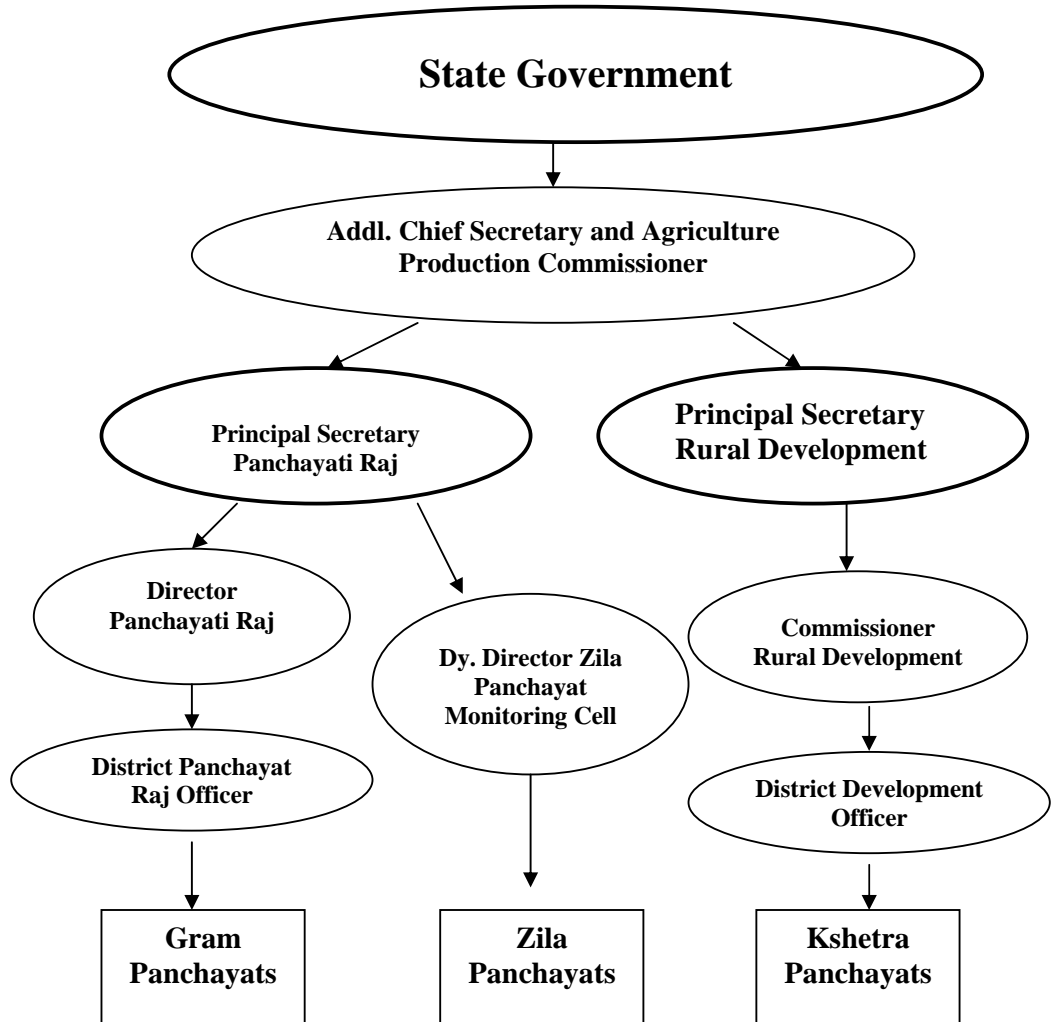
The 73rd Constitutional Amendment envisaged devolution of funds, functions and functionaries to PRIs. Of the twenty-nine functions listed in the 11th Schedule of the Constitution which were to be transferred to PRIs by the State Government, only twelve functions have been transferred till date.

The Eleventh Finance Commission had recommended exercising of control and supervision over maintenance of accounts of Panchayati Raj Institutions (**PRIs**) and their audit by C&AG alongwith preparation of budget and accounts formats. Consequently, the State Government entrusted the audit and

TGS of local bodies to C & A.G. of India under Section 20(1) of the C&AG's (Duties, Power and Conditions of Service) Act 1971 in October 2001.

1.2 Organizational Setup

The Administrative control of the various units of PRIs is shown as below:



While the 'Adhyaksha' heads the Zila Panchayats and the District Rural Development Agency (*DRDA*), the Kshetra Panchayats and Gram Panchayats are headed by 'Block Pramukh' and 'Pradhan' respectively.

1.3 Sources of Funds

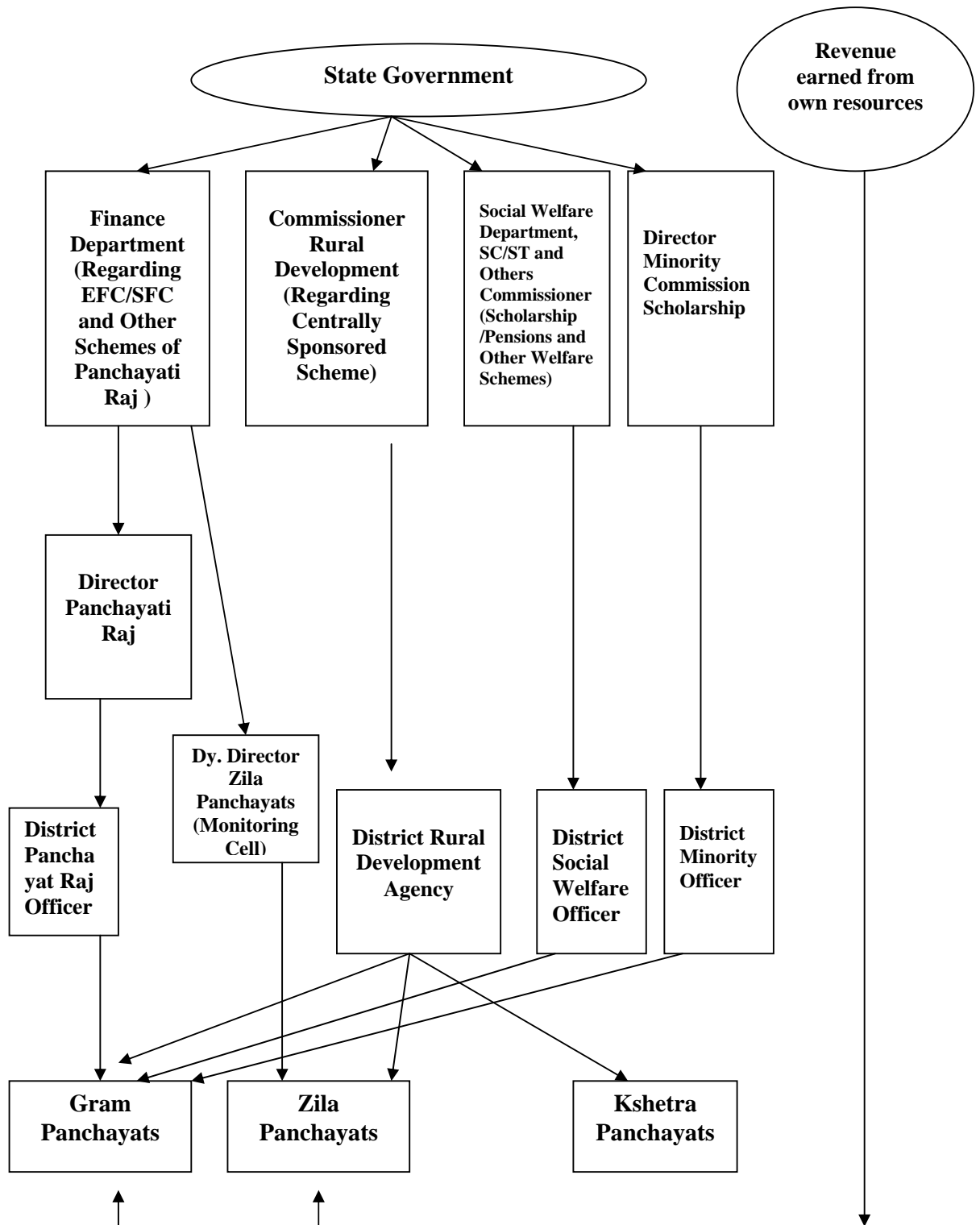
For execution of various developmental works, the Government of India and the State Government provide funds in the form of grants. The PRIs received funds mainly from the following sources:

- (i) Grants assigned under the recommendations of the **Eleventh Finance Commission (EFC)**.
- (ii) Devolution of 4 per cent of net proceeds of total tax revenue of the State Government under the recommendations of the **State Finance Commission (SFC)**.
- (iii) Through **District Rural Development Agency (DRDA)** for execution of Centrally Sponsored Schemes.
- (iv) Funds remitted by the respective departments for functions transferred to the PRIs.
- (v) Revenue earned by the PRIs out of their own resources such as taxes, rent, fees, issue of licenses, Tehbazari, Boat Ghat (lease rent for jetty landing) etc.

1.4 Flow of Funds

The flow chart of funds to PRIs is shown as under:

Funding in PRIs – a schematic presentation



1.5 Release of grants

The State Government (Finance Department) releases grants to the PRIs bi-annually on the recommendations of EFC and SFC. The State Government releases funds directly to ZPs under intimation to the Deputy Director Zila Panchayat (Monitoring Cell). In respect of GPs, the State Government releases funds to the Director Panchayati Raj, who, in turn, allocates them block-wise through allotment order under intimation to District Panchayat Raj Officers (**DPROs**). The DPRO further allocates the share of the GPs on the basis of total population, population of scheduled caste/scheduled tribes and area of a gram panchayat and issues advice to the Bank for crediting the amounts into the accounts of the respective GPs.

1.6 Functioning of the PRIs

The units of PRIs function under the direction of various committees. There are six committees for different works viz.

- ❖ Administrative Committee;
- ❖ Planning and Development Committee;
- ❖ Works Committee;
- ❖ Education Committee;
- ❖ Water Management Committee; and
- ❖ Health and Welfare Committee

1.7 Preparation of Annual Budget

Although there exists provision for preparation of an annual budget by each unit of PRIs under the existing accounting rules, none of the test checked GPs had prepared the annual budget.

1.8 Accounting Arrangement

Account is being maintained by accountant/account clerk in Zila Panchayat and Kshetra Panchayat and by chartered accountant/village development officer in Gram Panchayat. Accounting on C&AG's prescribed format and Database formats was not yet started by ZP & KP. Agreement with chartered accountants were made by 18625 GPs for maintaining account on C&AGs format & database . Year wise position of accounts of GPs prepared by CAs was 2811 in 2000-01; 2803 in 2001-02; 2754 in 2002-03 and 2679 in 2003-04.

1.9 Audit Arrangement

The Chief Audit Officer (CAO) Cooperative Societies and Panchayats acts as Primary Auditor of all the three tiers of PRIs through the District Audit Officer (DAO) at district level. Audit by C &AG of India flows out of the entrustment of Technical Guidance and Supervision under section 20(1) of the C&AG's (DPC) Act, 1971.

1.10 Audit Coverage

Test audit of the accounts of 20 Zila Panchayats(**Appendix-I**), 63 Kshetra Panchayats and 1899 Gram Panchayats for the year 2003-04 was conducted during 2004-05. The important audit findings are summarized in the succeeding paragraphs and chapters.

1.11 Comments on Accounts

1.11.1 Blockage of grants

Out of the grants of Rs.2655.39 crore^φ received on the recommendations of EFC and SFC during 2000-04, the Director Panchayati Raj withheld Rs.73.70 crore^β and unauthorisedly kept them in the Personal Ledger Account. Blockage of such grants defeated the developmental objectives for which the amounts were released.

1.11.2 Unutilized Funds

Test check of closing balances during 2002-03 and 2003-04 revealed huge amounts as indicated below.

(Rs. in Crore)

Year	Closing balances held by 17 ZPs ^χ	Closing balances held by 29 KPs ^δ	Closing balances held by 18 GPs ^ε
2002-03	43.21	9.68	0.23
2003-04	49.59	8.17	0.25

Thus during 2002-03 and 2003-04, expenditure did not keep pace with the release of grants resulting in poor absorption of funds by the PRIs indicating defective planning and inadequate financial management.

1.11.3 Non-reconciliation of Cash Balances

In 5 Zila Panchayats and 5 Kshetra Panchayats, differences amounting to Rs. 1.86 crore (**Appendix-V**) and Rs 0.38 crore (**Appendix-VI**)

^φ Rs.603.43 crore (2000-01),Rs.615.42 crore (2001-02), Rs.626.42 crore(2002-03) and Rs.810.12crore(2003-04).

^β creation of database (Rs. 52.66 crore), computerization (Rs.21.04 crore).

^χ ZP wise detail shown in Appendix II

^δ KP wise detail shown in Appendix III

^ε GP wise detail shown in Appendix IV

respectively remained unreconciled as on 31 March 2004 between the cash book/grant register and bank pass book. Further no system of reconciliation of cash balances was noticed in 4 Kshetra Panchayats^λ and in all the Gram Panchayats test checked. In the absence of reconciliation of cash balances, authenticity of accounts of these local bodies could not be ensured. Besides, instances of fraud/embezzlement /misappropriation of funds could not be ruled out.

1.11.4 Deficiencies in the maintenance of Cash Book

Test check of cash books in two Zila Parishads revealed differences between amounts actually received/paid/recorded in the monthly accounts and the amounts as entered in the cash books as follows:

- In ZP Bahraich during 2003-04, while Rs.2.41 crore was received under Vidhayak Nidhi, in the monthly account only an amount of Rs.2.10 crore was recorded. Thus a difference of Rs.0.31 crore remained un-reconciled. Similarly, on 25 March 2004, a payment of Rs.0.96 lakh was shown in the cash book, whereas the total as per vouchers paid was Rs.1.00 lakh. Thus a difference of Rs.0.04 lakh remained un-reconciled..
- In Z P Kannauj, on 24 September 2002, a payment of Rs.9.34 lakh was made while the cash book balance showed Rs.9.17 lakh. Thus a minus balance of Rs.0.17 lakh remained unreconciled.

^λ Barsathi(Jaunpur), Belsar(Gonda), Farenda(Maharajganj),Shivpur(Bahraich)

In the absence of reconciliation of cash balances, authenticity of accounts of these local bodies could not be verified.

1.11.5 Non maintenance of records

Important subsidiary records such as Stock Book, Security Deposit Register, Tax Demand and Receipt Register, *Jama Bandi*^β, Immovable Property Register, Works Register, Estimates and Measurement Book were not maintained by the GPs test checked (**Appendix-VII**). Due to non-maintenance of records, the veracity of financial transactions could not be vouchsafed. Besides this, Internal Audit Register was also not being maintained.

1.11.6 Non –maintenance of distinct Gram Nidhi Accounts

According to the provisions contained in Chapter 2 of the Accounting manual of Finance and Management in Gram Panchayat issued by the Panchayati Raj Department, funds received should be kept in three accounts;

- Gram Nidhi Accounts-I (Miscellaneous),
- Gram Nidhi-II (SGRY) and
- Gram Nidhi-III (Scholarship and Pension).

It was noticed that in 6 Gram Panchayats^ψ, the amount was kept in a single bank account instead of three separate accounts. Besides being fraught with the risk of diversion of funds, this did not also permit proper classification of

^β Jama Bandi - is a kind of a record maintained by GPs to account for all receipts on account of water tax, irrigation fee and other miscellaneous receipts.

^ψ Badhirua (Mainpuri), Beerpur Kalan (Mainpuri), Byotikalan (Mainpuri), Hathpau (Mainpuri), Kushmakhera (Mainpuri), RajpurKalan (Mainpuri),

transactions.

1.11.7 Non-preparation of receipt and payment accounts

Monthly as well as annual receipt and payment accounts were not prepared in 6 Kshetra Panchayats¹ and any of the Gram Panchayats test checked. Due to this, actual income and expenditure could not be verified and the true financial picture of Gram Panchayats was also not ascertainable.

1.11.8 Certification of Accounts

With no specific provisions in the State Act/Rules for certification of Accounts by the Chief Audit Office (CAO) Cooperative Societies & Panchayats, certification of accounts was not in vogue in any of the units test checked.

1.11.9 Non contribution of own share by GPs

The Gram Panchayats were required to contribute out of their own resources an amount equal to 25 per cent of TFC/EFC grants received for implementation of Schemes (para 4.10 of EFC guidelines). During 2002-03 and 2003-04, the Director Panchayati Raj released TFC/EFC grants amounting Rs.49.96 lakh and Rs. 39.86 lakh respectively to 55 GPs(2002-03) and 54 GPs(2003-04) test checked Accordingly, the GPs were required to contribute Rs.12.49 lakh and 9.97 lakh respectively out of their own resources (**Appendix- VIII**). None of the GPs contributed this amount which the State Government should have within three months, resulting in short funding of the programmes/schemes.

¹ Belsar (Gonda), Jarwal (Bahraich), Sahawan (Etah), Rampur (Bulandshahar), Chhibramau (Kannauj), Shikarpur (Bulandshahar)

1.11.10 Lack of Internal Control

The main objectives of a sound internal control system in an organization are-

- ❖ Promoting orderly, economical, efficient, and effective operations and quality products and services consistent with the organization's missions;
- ❖ Safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud and irregularities;
- ❖ Adhering to laws, regulations, and management directives; and
- ❖ Developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.

During test audit of the accounts of PRIs for the year 2002-03 and 2003-04, numerous cases of poor financial management and financial irregularities resulting in infructuous and excess expenditures, embezzlements, loss of revenue etc were noticed which revealed that the accounting system and internal controls were extremely weak in PRIs.

1.12 Recommendations and Conclusions

Internal Control and monitoring mechanisms at the level of the Panchayati Raj Department and Rural Development Department as well as individual PRI management level relating to the following areas needs to be strengthened :-

- ❖ To Implement Budget and Accounts formats prescribed by the C&AG.
- ❖ Proper and timely maintenance of Accounts, Cash Books and un-reconciled differences should be adjusted/ rectified immediately.
- ❖ Proper maintenance of basic records file, Stock Register, Deposit Register, Tax Demand and Receipt Register, Muster rolls etc.