

# PART A PANCHAYATI RAJ INSTITUTIONS

## CHAPTER - I

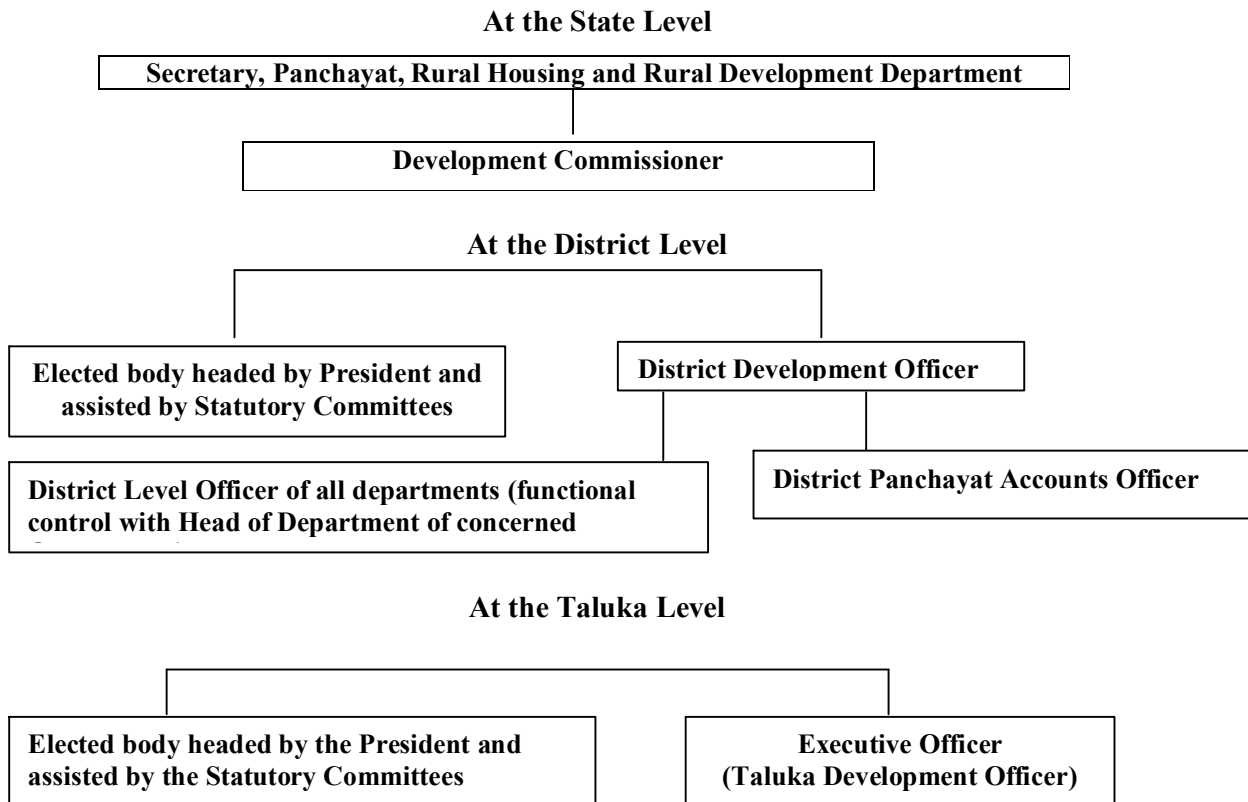
### FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Introduction

Panchayati Raj Institutions (PRIs) came into existence in Gujarat from April 1963 under the Gujarat Panchayat Act, 1961. This was amended in April 1993 to incorporate the provisions of the 73<sup>rd</sup> Constitutional Amendment Act, 1992. The Act envisages decentralization of powers to three tier Rural Self Governing Bodies, viz., Village Panchayats (VP), Taluka Panchayats (TP) and District Panchayats (DP). As per 2001 census, population of Gujarat is 5.07 Crore of which 3.17 Crore (62.64 per cent) resides in rural area. The last election of District Panchayats and Taluka Panchayats was held in the month of October 2005. The last election of some of the Village Panchayats was held in the month of April 2008.

#### 1.2 Organizational set up

There are 25 DPs, 224 TPs and 13,788 VPs in the State. An organogram reflecting the organizational set up of PRIs is given below –



## At the Village Level



### 1.3 Powers and functions

The Gujarat Panchayat Act, 1961 as amended in 1993, entrusted the PRIs with the following powers and functions (i) to prepare development plan/ Annual action plan (ii) to implement schemes for economic development and social justice as may be drawn up by or entrusted upon it (in pursuance of 11th Schedule of the Constitution), (iii) to manage and maintain any work of public utility, and (iv) to collect revenue for utilization of such fund for Developmental Work. As per Section 180(2) of the Act, the State Government may entrust to a District Panchayat 29 functions as mentioned in the 11<sup>th</sup> Schedule of the Constitution. Out of these, 14 functions<sup>1</sup> are fully devolved, 5 functions<sup>2</sup> are partially devolved, and 10 functions<sup>3</sup> are yet to be devolved.

### 1.4 Sources of Revenue

The receipt of PRIs from all sources during the last three years ending 2006-07 is given below:-

Description	(Rupees in Crore)		
	2004-05	2005-06	2006-07
State Government Grant	2978.20	3306.38	3564.88
Govt. of India Grant	471.36	472.77	740.10
Own Revenue	108.62	82.23	182.11
Loans and advances	35.43	47.02	59.91
EFC/TFC Grant	113.50	136.34	199.66
<b>Total</b>	<b>3707.11</b>	<b>4044.74</b>	<b>4746.66</b>

Source: Annual accounts of District Panchayats.

<sup>1</sup> (i) Agriculture, including agricultural extension (ii) Minor irrigation; (iii) Animal Husbandry; (iv) Rural housing; (v) Drinking water-water distribution; (vi) Roads, culverts, bridges, ferries, waterways; (vii) Fuel (Energy) and fodder; (viii) Minor forest projects; (ix) Poverty alleviation programmes; (x) Fair and markets; (xi) Health and sanitation, including PHCs dispensaries; (xii) Family Welfare; (xiii) Women and Child Development; (xiv) Welfare of Weaker Sections in particular of the SC and ST.

<sup>2</sup> (i) Primary and Secondary Education-Primary; (ii) Adult and non-formal education; (iii) Cultural activities; (iv) Social Welfare, including welfare of handicapped and mentally retarded; (v) Maintenance of community assets.

<sup>3</sup> (i) Land improvement, implementation of Land Reforms; (ii) Fisheries; (iii) Social Forestry and Farm Forestry; (iv) Small scale industry; (v) Khadi, village and cottage industries; (vi) Rural electrification including distribution of electricity ; (vii) Non-conventional source of energy; (viii) Technical training and vocational education;(ix)Libraries; (x) Public distribution system

The sectoral allocation of receipts and expenditure incurred there against is given below.

(Rs. in Crore)

Description	2004-05		2005-06		2006-07	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
General Services	98.78	47.29	77.43	62.59	191.82	112.07
Social Services	2295.28	2239.59	2802.86	2608.02	3043.26	2606.63
Economic Services	1277.62	1197.22	1118.21	824.22	1451.77	1027.12
Loans	35.43	35.65	46.24	40.21	59.81	35.05
<b>Total</b>	<b>3707.11</b>	<b>3519.75</b>	<b>4044.74</b>	<b>3535.04</b>	<b>4746.66</b>	<b>3780.87</b>

Source: Annual accounts of District Panchayats.

It would be observed from the table above that the percentage of utilization of fund on Social Services was showing declining trend for the three years under review.

### 1.5 Audit arrangements

Director of Local Fund Audit (DLFA) is the primary auditor for the PRIs. Details of completion of audit of PRIs by the DLFA till 31st March 2008 are given below:

Year	District Panchayat	Taluka Panchayat	Village Panchayats
2003-04	All Districts	All Talukas	All Villages
2004-05	20 Districts of 25 Districts	211 Talukas	All Villages
2005-06	---	60 Talukas	2005-08 under progress

As per schedule B to the Government of Gujarat, Panchayat and Urban Housing Development Department Resolution No. JPM/1089/4653/CHH/1 dated 13.11.1981; an internal audit system is in existence. This system has to ensure and strengthen financial control of the functionaries, departments, TPs and VPs as per Gujarat Panchayat Accounting and Budget Rules 1973 and order issued from time to time.

Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (CAG) shall exercise control and supervision over the maintenance of the accounts and audit of the PRIs.

All PRIs in the State attract audit under section 14(1) of CAG's (DPC) Act 1971. State Government also entrusted (May 2005) the technical guidance and supervision (TGS) over the audit of PRIs to the CAG under Section 20(1) of the CAG's (DPC) Act, 1971.

### **1.6 Annual accounts and database formats**

Receipts & Payments accounts of VPs, TPs and all DPs are consolidated by Development Commissioner, Government of Gujarat. The formats for Database on finance of PRIs as prescribed by the C&AG had been accepted by the Government in September 2004 and August 2007. However, these have not been operationalised so far (March 2008).

### **1.7 Finance Commission Grants**

During 2004-05, Rs.139.23 crore on the recommendations of the EFC and during the period 2005-07, Rs. 372.40 crore on the recommendation of Twelfth Finance Commission (TFC) were released to the State Government by Government of India. There was no delay in releasing grant from State Government to DPs. No Grant has been released to the PRIs on the recommendation of State Finance Commission.

### **1.8 Pending Inspection Report paragraphs**

As on 31 March 2008, there were 1419758 numbers of paragraphs in the Inspection Reports issued by DLFA as detailed below:-

<b>Name of unit</b>	<b>No. of Paragraph outstanding</b>
District Panchayats	36873
Taluka Panchayats	114724
Village Panchayats	1268161
<b>Total</b>	<b>1419758</b>

Aggressive pursuance of DLFA is required for proper compliance of audit observations by PRIs for settlement of these old outstanding paras.

As on 30th November 2008, 5383 number of paras of the Inspection Reports issued by AG (Civil Audit) up to the year 2006-07 were still outstanding for want of reply from the Auditee units.

### **1.9 District Planning Board**

With a view to ensure effective planning in coordination with the planning of the State, the State Government constituted (1979) District Planning Boards(DPB) for each districts headed by Minister in charge of the concerned District. The DPB have further constituted Taluka Planning Committees for comprehensive development and making basic amenities available to every village. The Taluka Planning Committees prepare proposals for the works to be taken up under their respective talukas keeping in view the requirements of the Talukas and send them to the DPB for sanction. The works are sanctioned by the DPB and allocated to the PRIs for implementation.

### **1.10 Budgetary Procedure**

As per Para 163(1) of the Gujarat Panchayat Act, 1993, Panchayats shall prepare annually the budget on or before the 15th February of current year. The budgets so prepared and as approved by the General Body of the Panchayats are sent to the Development Commissioner, Government of Gujarat for approval.

Further, in terms of Rule 161(d) of Gujarat Taluka and District Panchayat Financial, Accounts and Budget Rules, 1963 and Para 126 of Gujarat Budget Manual Volume-I, the budget should be prepared in realistic manner. Budget should be prepared without over/under estimation of receipts or expenditure.

However, while comparing the actuals with the budget estimates of five PRIs it was noticed that budget estimates for the year 2005-06 have not been prepared with due care as the variations ranging from 9 percent to 81 percent were noticed as detailed in **Appendix-I**.

In District Panchayat Anand, it was noticed that the revised budgeted receipt was raised to Rs. 215.50 crore from the original budgeted receipt of Rs. 185.40 crore while the actual receipt was only Rs. 54.60 crore.

On being pointed out, the PRIs replied (April 2007) that the budgets were prepared on the basis of proposals made by different official of the District Panchayat/Taluka Panchayat. Hence, there may be deviations in actuals as compared to budget estimates. It was also stated that suggestion of audit in this regard is noted for future compliance.

### **1.11 Conclusion**

The State Government has not devolved all the functions envisaged in the 11th Schedule of the Constitution. Though the formats for database on the finances of PRIs prescribed by CAG have been adopted by the State Government, the same is yet to be implemented. Pendency of audit by DLFA and arrears in settlement of outstanding Inspection Report paragraphs of DLFA and AG (Civil Audit) indicates weak internal control system in PRIs. The budgetary procedure was defective as evident from the variations noticed by audit between budget estimates and actuals.

### **1.12 Recommendations**

The following measures are recommended for ensuring better accountability system in PRIs.

- All functions envisaged in the 11<sup>th</sup> Schedule may be devolved to the PRIs with transfer of adequate funds and functionaries.
- Database on finances of PRIs may be maintained in the formats prescribed by CAG.
- Outstanding Inspection Report paragraphs may be settled by effective compliance.
- Budgets may be prepared realistically.