

CHAPTER- I

AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

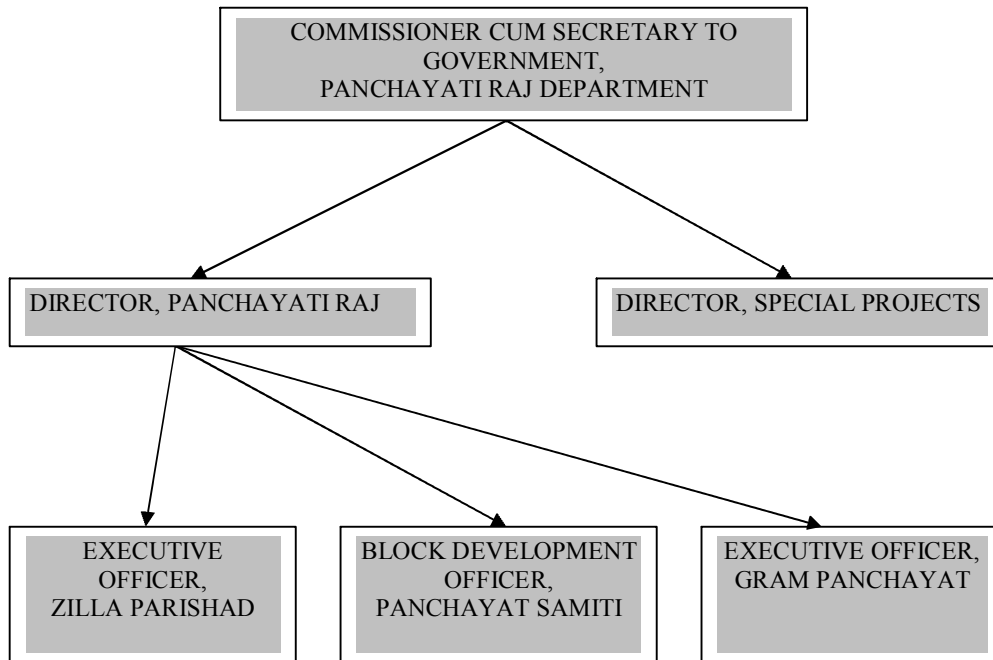
The Panchayati Raj Institutions in the State of Orissa are regulated by the Gram Panchayat Act, (1964), Panchayat Samiti Act, (1959) and the Zilla Parishad Act, (1991). Consequent upon enactment of 73rd constitutional Amendment Act, 1992 suitable amendments to the above Acts were made incorporating provisions for decentralization of powers for strengthening the three tiers of local bodies at the District, Block and Village levels. At present, 30 Zilla Parishads (ZPs), 314 Panchayat Samitis (PSs) and 6234 Gram Panchayats (GPs) are functioning in Orissa. The last election to the PRIs was held in February 2007.

The Eleventh Finance Commission (EFC) recommended that the C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit of all the three-tiers of PRIs. Accordingly, the State Government has entrusted responsibility for providing Technical Guidance and Supervision (TGS) to the C & AG and also entrusted audit of 20 *per cent* of GPs (September 2003) and PSs (May 2004) to the C & AG of India under section 20(1) of the DPC Act. Presently audit of all PSs and ZPs is being conducted under section 14 of the CAG's (DPC) Act.

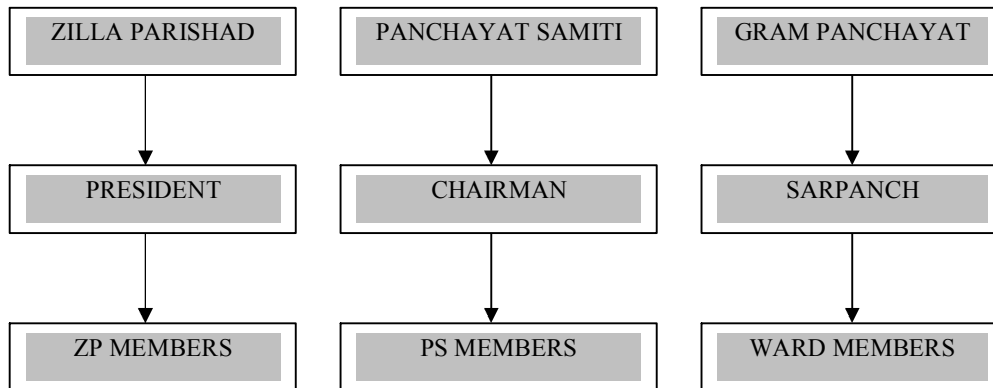
1.2 Organizational Set up

The Panchayati Raj Institutions (PRIs) function under the administrative control of the Panchayati Raj (PR) Department headed by the Commissioner-Cum- Secretary and assisted by the Director (PR) and the Director (Special Projects) at the State level.

The organizational set-up of the PRIs is as follows: -



The Elected Body set-up of the PRIs is as follows: -



The State has 30 districts and each district has a Zilla Parishad. The ZP is controlled by an elected body headed by a President, who is elected from among the elected representatives of the ZP. The Collector is designated as the Chief Executive Officer (CEO). Under the CEO, one Executive Officer (EO) discharges day-to-day administrative functions of the ZP.

The PS functioning at the Block level is controlled by an elected body headed by a Chairman duly elected from among elected representatives of the Block and the Block Development Officer (BDO) is the executive head.

At the GP level, the elected members headed by a Sarpanch constituted the GP. The State Government by legislation has declared the Village Level Worker (VLW) as the Executive Officer entrusted with general superintendence and overall control of the GP who discharges his duties under the supervision of the District Panchayat Officer (DPO).

1.3 Sources of Funds

The main source of revenue/income for PRIs in the State are funds devolved by Government of India (GOI) under the various centrally sponsored scheme (CSS), Grants received from State Government besides grants recommended by Eleventh Finance Commission (EFC) & Twelfth Finance Commission (TFC) for specific purposes. Based on the recommendations of State Finance Commission (SFC) the State Government released grants for various purposes. In addition PRIs are also mobilizing resources from own sources such as taxes, rents, licence fees etc. The receipt and expenditure position of the PRIs for the last three years is as follows: -

(Rupees in crore)

GRANTS	RECEIPTS		
	2004-05	2005-06	2006-07
Central grants	696.06	1051.69	1120.50
State grants	179.20	189.28	309.32
TFC Grants	-	-	345.76 (including receipt in 2005-06)
Own revenue	-	-	-
Loans	-	-	-
Others	-	-	-
TOTAL	875.26	1240.97	1775.58
	EXPENDITURE		
	802.04	1296.04	1541.42 (including the expenditure made during 2005-06 on TFC grants)
BALANCE	73.22	(-) 55.07	234.16

The percentage of Central share to total receipt of the PRIs was 78.54, 84.74 and 63.10 for the years 2004-05, 2005-06 and 2006-07 respectively. As per the information furnished by the State Government none of the GPs collected tax or non-tax revenue despite enabling provisions in the GP Act. As far as PS and ZPs are concerned taxation powers are not conformed on them by the respective legislations. As such PTIs at all levels are completely dependent on Central and State assistance for their requirements of functions.

1.4 Flow of Funds

The Central Finance Commission Grants are being released to the PRIs by the State Government on receipt of the same from GOI and based on utilisation. Funds earmarked for various centrally sponsored programmes viz, SGRY, SGSY, IAY etc are released to the PRIs through the DRDAs based on approved action plans. Apart from direct release of funds to PRIs for utilization, various Government Departments (line departments) also execute certain schemes/programmes after approval of the PRIs concerned in respect of functions transferred to PRIs under devolution of powers.

1.5 Functioning of PRIs

The PRIs execute various functions entrusted to them through seven Standing Committees, constituted for the proposes viz,

- Planning, Finance, Anti- poverty Programme and Co-ordination,
- Agriculture, Animal Husbandry, Soil Conservation, Horticulture, etc.
- Works, Irrigation, Electricity, Water Supply, etc.
- Health, Social Welfare, etc.
- Public Distribution System, Welfare of the Weaker Section, etc.
- Handicrafts, Cottage Industry, Khadi and Village Industries, etc.
- Education, Sports and Culture.

The overall monitoring and review of the programmes are conducted at the state level by the State Level Vigilance & Monitoring Committee (SLVMC) and at the district level by the District Monitoring and Vigilance Committees (DMVC). The SLVMC is constituted under the chairmanship of the Hon'ble Minister, Rural Development with three Co-Chairman and twenty nine members as detailed in **(Appendix-I)**. In case of DMVC the District

Collector is the Chairman, with one or two Assistant Engineers, one or two Junior Engineers from Public works or Rural Development Department, Superintendent of District Local fund Audit Offices and one Officer in charge of public grievances nominated by the collector as the members.

1.6 Accounts

The annual accounts of PRIs have to be prepared in the prescribed forms. The Executive Officer is responsible for maintenance of various books of accounts and annual financial statements in ZPs, and the Block Development Officer (BDO) in PS prepare and maintains the accounts with the assistance of Accountants. In case of GPs, the Executive officer/Secretary maintains the accounts.

1.7 Audit

The Examiner Local Fund Audit (ELFA) is the statutory Auditor of PRIs in the State. The ELFA conducts audit of PSs and GPs through District Audit Officers, Audit Superintendents and Auditors. The ELFA has not taken up audit of the accounts of ZPs since inception though it was entrusted to the LFA vide Orissa Zilla Parishad (Amendment) Act 2000. The audit of PSs and GPs was being carried out regularly by ELFA. The audit of 2698 GPs and 16 PSs accounts by the ELFA was pending as on 31.03.2007.

The C & AG conducted audit of ZPs and PSs under section 14 of the CAG's DPC Act. Audit of 20 per cent of GPs and PS is also entrusted to the C & AG of India under section 20 (1) of the C&AG's (DPC) Act, 1971. Apart from that, C & A G has to provide TGS to Government in maintenance of accounts and conduct of audit. After the completion of audit of PRIs under section 14/20(1) of the DPC Act, an Annual Technical Inspection Report (ATIR) was issued to the Government for the year 2005-06. Though EFC recommended for the creation of a separate committee of legislation to examine the audit report of Local Bodies, the same has not been constituted so far.

1.8 Audit Coverage

The audit of PRIs is being conducted as per an approved audit plan. Accordingly audit of 30 ZPs, 314 PSs and 1256 GPs was planned for the year 2006-07 and the audit of the accounts of 29 ZPs, 265 PSs and 1056 GPs pertaining to the year 2006-07 was conducted during 2007-08.

1.9 Internal Audit

There is no system of internal audit in PRIs. However a vague internal audit wing is functioning under the Panchayati Raj Department for audit of the PRIs. But the Internal Audit could not cover the audit of the PRIs due to shortage of staff. However, Audit is conducted on special occasions on requisition made by the PRIs only or when ever circumstances warrant.

1.10 Pendency of Audit objections of C & A G.

As regards the pendency of Audit objections raised by the C & A G of India in respect of PRIs total no of 10055 paras reported through 1184 Inspection Reports pertaining to the period from 1990-91 to 2005-07 were issued by Senior Deputy Accountant General LBA & A Orissa which are pending for settlement as of March 2007. In respect of GPs 1488 IRs were issued containing 17427 paras pertaining to the years 2005-06 & 2006-07.

1.11 Comments on release and utilization of TFC grants

The details of year wise receipt, release and utilization of Twelfth Finance Commission grants is indicated in the following table: -

(Rupees in Crore)

Year	Receipt from GOI	Release by State Government	Amount utilized	Balance
2005-06	160.60	160.60	146.11	14.49
2006-07	160.60	160.60	144.75	15.85
Total	321.20	321.20	290.86	30.34

On a detailed audit of utilization of TFC grants, the following observations are made:

1.11.1 Inadmissible expenditure of Rs.5.65 crore under TFC grants

As per para 3.1 (Xii) of TFC guidelines, the PRIs should be encouraged to take over the assets relating to water supply and sanitation and utilize the grants for their repair/rejuvenation and also to meet the O & M cost of water supply.

Accordingly, an amount of Rs.288.16 crore was sanctioned by the Government to the ZPs for the years 2005-07 with the directions to transfer the grants to the G Ps for O & M costs of water supply and sanitation only.

Test check of records of 171 GPs revealed that out of Rs.11.82 crore released to them, Rs.5.65 crore was utilized for construction of Cement Concrete (CC) roads in violation of the Government sanction orders. Thus utilization of TFC grants for construction of CC roads was done in clear violation of TFC guidelines.

On this being pointed out in audit the GPs replied that as per the approval of action plan by the ZPs, the works were executed. The replies were not justifiable since the works executed were not as per provisions contained in TFC guidelines.

1.11.2 Non-creation of Database for maintenance of accounts & irregular utilization of TFC grants

Ministry of Finance vide Para 2.2 of the guidelines stipulated that Director Local Fund Audit or authority prescribed for conducting audit of Local bodies shall be responsible for the task of creation of database to be collected and compiled in format prescribed by C & A G of India. C & A G circulated data base formats (August 2005) which were forwarded to State Government in September 2006. Since then nothing was heard from State Government about acceptance of these or otherwise, and the status of implementation.

The State Government received Rs.29.35 crore being the total amount due to 6234 GPs and released the entire amount to the ZP, Khurda for onward distraction to GPS for the said purpose (March 2006) with the instructions that the funds shall be kept in PL Account of Project Director, DRDA and shall not be utilized until detailed directions from Government were issued. However, Rs.32.00 lakh was sanctioned from the PL Accounts towards remuneration of Computer Programmers only in two occasions. Thereafter no direction was issued by the Government for creation of database, for maintenance of accounts and the balance amount of Rs.29.03 crore was still lying in the PL Accounts of PD, DRDA, Khurda.

Further Government of Orissa has sanctioned Rs.3.86 crore out of TFC grants meant for improvement in the service delivery by the Panchayats in respect of water supply and sanitation purpose of payment of remuneration of the Computer Programmers (Rs.5000/- per month) working in 30 DRDAs and 314 Blocks for the period from April 2005 to March 2007.

It was further seen in five test checked PSs (**Appendix-II**) that Rs.11.83 lakh was utilized towards payment of salaries of the Rural Water Supply and Sanitation (RWSS) staff during 2006-07 out of TFC grants in violation of TFC guidelines.

The remuneration of the programmers and the salaries of RWSS staff were to be met by the Government from its own funds, instead, it was paid out of TFC grants resulting in irregular utilization of the grants.

On this being pointed out in audit the PRIs stated that as per sanction of Government the payments were made. The replies were not justifiable since the funds were meant for water supply, sanitation and creation of database and not for payment of salary to the staff.

1.12 District Planning Committees

The State Government enacted Orissa District Planning Committee (DPC) Act, 1998 for setting up of District Planning Committees to consolidate the plans submitted by the PRIs and Urban Local Bodies (ULBs) and prepare integrated draft development plan for the district as a whole. The Committee was also assigned the powers to review the implementation of the developmental programmes by the Local Bodies (LBs). Elected members of PRIs and ULBs in the district were to fill up 80 *per cent* members of the committee and the rest 20 *per cent* members were to be nominated by the Government. The EFC devolved the LBs with powers for preparation of plans for economic development and social justice and implementations of need based developmental schemes for enabling them to function as institutions of self-government. The Draft District Development Plan was required to be forwarded by the Chair Person of the DPCs to State Government for approval. Despite the formation of the DPCs since 2001-02, they were not yet made functional due to absence of technical support teams and secretariat support staff for monitoring and implementation of plans even after a decade of enactment of the Act. However, Government (Planning and Coordination department) stated (May 2008) that 23 technical support institutions (TSI) were selected and assigned to different districts for preparation of district

plans for the year 2008-09 as per the directives of the Planning Commission. The TSIs were to report as per directions of Planning and Co-ordination Department and district plan 2008-09 was to be placed before DPCs by August 2008.

Test check of units by audit revealed that LBs formulated action plans for some individual schemes as a stand-alone process without having any linkage to the holistic development of the area. It lacked objectivity and vision for empowerment of Local bodies as envisaged in the Constitutional Amendment Act. Information on consolidated LB wise details of resource availability including activity wise planning of own funds, Grant In Aid, special grants, GOI and State plan funds and position of assets and liabilities were not available either in LBs concerned or centrally at district /State level.

COMMENTS

ON

ACCOUNTS

1.13 COMMENTS ON ACCOUNTS

1.13.1 Non-utilization of Funds.

Test check of closing balances lying in the accounts of 344 PRIs for the year ended 31 March 2007 revealed that substantial amounts received for implementation of different schemes were not utilized within the period specified as detailed under: -

(Rs in crore)

Name of the PRIs	No of PRIs	Opening balance	Receipt	Total	Expenditure	Balance
Zilla Parishad	009	012.34	028.44	040.78	034.40	006.38
Panchayat Samiti	085	227.19	304.92	532.11	262.45	269.66
Gram Panchayat	250	014.99	031.92	046.91	030.70	016.21
Total	344	254.52	365.28	619.80	327.55	292.25

The un-utilized amount of Rs.292.25 crore constituted 47.15 *per cent* of the total funds available with the PRIs for the year 2006-07. Details of irregularities noticed in test audit of expenditure are given in paras below. Poor utilization of funds indicated lack of appropriate planning and delays in execution of schemes/programmes through regular monitoring and evaluation.

1.13.2 Non-reconciliation of cash balances

Funds received in respect of CSS were kept in nationalised Bank accounts by PSs. In order to ensure accuracy of the accounts, reconciliation of balances between the cash book and bank pass book should have to be made regularly.

During the audit of PSs, audit noticed that in 13 PSs, difference of Rs.9.39 crore (**Appendix-III**) between Cash Books and Bank pass books balances remained unreconciled as of 31 March 2007. In the absence of reconciliation of cash balances, authenticity of accounts of these local bodies could not be vouch safed.

1.13.3 Non production of vouchers –Rs.1.72 crore

During test check of records in one ZP, 12 PSs and 17 GPs the vouchers in support of the expenditure of Rs.1.72 crore (**Appendix-IV**) could not be shown to audit for check.

In the absence of the supporting vouchers the genuineness of the expenditure could not be vouchsafe.

On this being pointed out the casual reply “that the same will be shown to next audit” was given by the PRIs. But the replies were not acceptable since without supporting vouchers the authenticity of expenditure was not ensured.

1.13.4 Non preparation of Budget Estimates

As per Rule 98(1) of the Gram Panchayats Act, Rule 24(1) of the Panchayat Samiti Act and Rule 12(1) of the Zilla Parishad Act the GP, PS and ZP respectively shall in each year prepare and place before the Grama Sabha, Panchayat Samiti and Parishad for its consideration a budget estimate showing the probable receipts and expenditures for the following year and submit the budget to the respective elected body for its approval.

Test check of 40 PRIs (04 ZPs, 20 PSs and 16 GPs) revealed that none of the PRIs has prepared the budget estimates. The State Government is releasing grants-in-aid o PRIs simply based on Annual Action plan submitted by the PRIs and not based on the Budget Estimates and the expenditures of the PRIs are not subjected to any budget control.

In absence of the Budget Estimates the probable receipts and expenditures for the following year could not be known to the PRIs.

1.13.5 Non-preparation of Annual Accounts

As per Rule 159 of the Gram Panchayat Act, Rule 30 of Orissa Panchayat Saminti Act and Rule 16 of the Zilla Parishad Act, the Annual Accounts of the GP, PS and ZP respectively shall be maintained and published in the prescribed manner indicating the total receipts and payments during the year under different head with opening and closing balances.

Scrutiny of records of three ZPs, 19 PSs and 21 GPs revealed that the Annual Accounts showing the total receipts and payments were not prepared by any of the units. Due to non-maintenance of accounts, the actual position of income and expenditure could not be verified and financial control is completely missing in PRIs.

1.13.6 Deficiencies in the maintenance of Cash Books

Audit of cash books of PRIs revealed that maintenance of cash book suffered from the following serious limitations: -

- Physical verification of cash was not conducted.
- Heavy cash balances in excess of the prescribed limits and not required for immediate purposes were kept in hand.
- A consolidated Cash Book showing the overall receipt and disbursement of cash of each PS is not maintained despite operation of more than one cash book.
- Monthly analysis of closing cash balances was not made.
- Expenditures was booked under items of works for which no provision existed.
- Interest earned in the Bank Pass Book was not regularly accounted in the Cash Book.

1.13.7 Non maintenance of accounts

With a view to adopt uniform procedure for maintenance of accounts of PRIs, the Government issued instructions (April 2004) to maintain accounts in the formats prescribed by the C&AG of India in respect of Panchayat Samitis, such as Annual receipt and payments accounts, Capital expenditure accounts, Statement of receivable and payables, Register for monthly receipts and payments, Monthly reconciliation statement, Accounts of movable and immovable property, Stock accounts, etc, but none of the PSs are preparing the annual accounts in the new formats. Though the matter has been brought out by Inspection Reports of PRIs, no action has been taken by the Government till date to compile the accounts in the revised formats. As far as ZPs and GPs are concerned the new form of accounts prescribed by C & AG has not been accepted by Government for adoption. They are not preparing their annuals accounts even in the old forms prescribed in the Act and Rules.

In addition to the above, the C & AG also prescribed formats for creation of Database on Finances of PRIs as recommendation of EFC/TFC. The simplified version of the formats was adapted in the Panchayat Samitis and Zilla Parishads and not adapted in Gram Panchayats.