

# CHAPTER-I

## AN OVERVIEW OF ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

### 1.1 Introduction

The Rajasthan Panchayat Act, 1953 was enacted keeping in view the philosophy enshrined in Article 40 of the Constitution of India, which lays down that the State shall take steps to organise Village Panchayats and endow them with such powers and authority so as to enable them to function as units of self Government. Subsequently, with a view to bringing in conformity with the new pattern of Panchayati Raj, the Rajasthan Panchayat Samiti and Zila Parishad Act was enacted in 1959 which provided for a three tier<sup>1</sup> structure of local self governing bodies at district, block and village levels and further decentralised powers. As a consequence of the 73<sup>rd</sup> Constitutional Amendment, the Rajasthan Panchayati Raj Act (RPR Act), 1994 came into force in April 1994, which apart from mandatory provisions delineated functions and powers of Panchayati Raj Institutions (PRIs). Later, Rajasthan Panchayati Raj Rules (RPRR), 1996 were incorporated thereunder to ensure the smooth functioning of PRIs.

There are 32 *Zila Parishads* (ZPs) with two cells in each ZP i.e., Rural Development Cell (RDC) and Panchayat Cell (PC), 237 *Panchayat Samitis* (PSs) and 9,189 *Gram Panchayats* (GPs) in the State with a total population of 4.33 crore (76.64 *per cent* of the State's total population of 5.65 crore<sup>2</sup>).

### 1.2 Organisational set up

The overall administration of the PRIs vests with the Principal Secretary, Rural Development and Panchayati Raj Department. An organisational chart on the administration of PRIs is given below:

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1. *Zila Parishad* at District level, *Panchayat Samiti* at Block level and *Gram Panchayat* at Village level.
  2. As per Census, 2001.



### 1.3 Accounting arrangements

Although the State Government had accepted (August 2003) the formats of accounts prescribed by the Comptroller and Auditor General of India (C&AG), annual accounts for the year 2006-07 were maintained by the PRIs in conventional formats prescribed under Chapter 11 of RPRR, 1996. Further, the State had not developed database on the finances of PRIs as recommended by Eleventh Finance Commission (EFC), on the formats suggested by C&AG in spite of provision of earmarked funds.

Meanwhile the Rural Development and Panchayati Raj Department (RD&PRD) has taken up a project, called Computerisation Automation Refinement of Integrated System of Management and Accounts (CARISMA) for computerising and interconnecting the PRIs. The project includes software pertaining to accounting, Management Information System, statutory duties (birth and death registration) and village database. The State Government

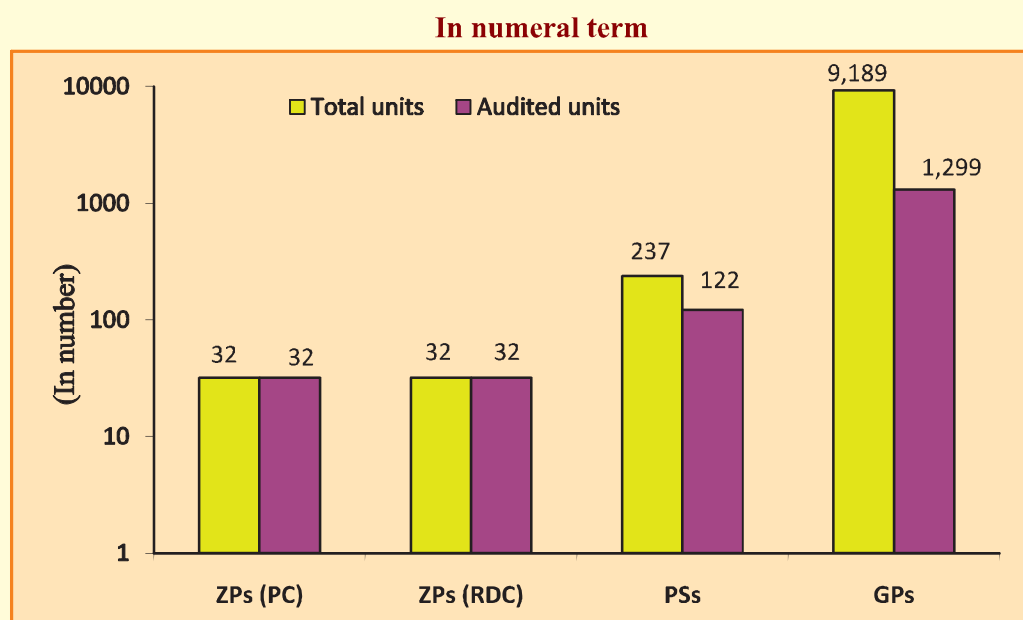
initiated the project in November 2005 to interlink Panchayati Raj Headquarters, 32 ZPs, 237 PSs and 1,100 out of 9,189 GPs at the initial cost of Rs 23.31 crore. The project alongwith its major key components viz. creation of database, inter-connectivity of PRIs and maintenance of accounts is scheduled to be completed by February 2011. The Panchayati Raj Department (PRD) intimated (August 2009) that Panchayati Raj Headquarters, 32 ZPs, 237 PSs and 1,114 GPs had been inter-connected as of 31 March 2009. However, the average percentage of connectivity of live links during June 2007 to June 2009 of ZPs was 46.88 (15 out of 32), PSs 27.43 (65 out of 237) and GPs 15.44 (172 out of 1,114). Further, due to incorporation of additional and ancillary works such as installation of routers, CMM batteries and increase in the height of RF towers etc., an amount of Rs 43.15 crore had been spent as of March 2010 and pending liabilities of Rs 2.17 crore were yet to be met.

#### 1.4 Audit arrangements

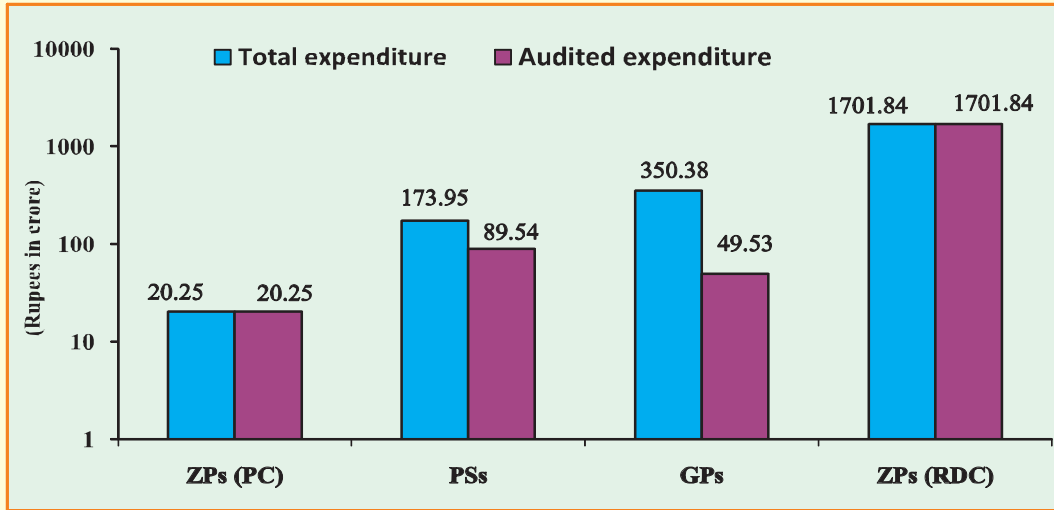
The Director, Local Fund Audit Department (DLFAD) is the primary auditor of the accounts of the PRIs under the RPR Act, 1994. Section 75(4) of the RPR Act, 1994 empowers the C&AG to test check the accounts of PRIs. Audit of accounts is also being conducted by the C&AG under Section 14 of C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

#### 1.5 Audit coverage

Out of 32 ZPs (each of PC and RDC), 237 PSs and 9,189 GPs, test check of accounts of 32 ZPs (PC), 32 ZPs (RDC) and 122 PSs including 1,299 GPs for the period up to 2005-06 was conducted during 2006-07. The position of audit coverage (numeral as well as fiscal) is indicated in the following graphs:



**In fiscal term**  
(Worked out on average basis in respect of PSs and GPs)



**1.6 Financial management and devolution of funds, functions and functionaries**

**1.6.1 Financial position of PRIs**

**1.6.1.1 Panchayati Raj Department**

Apart from own resources of tax and non- tax revenue e.g. fair tax, building tax, fees, rent from land and buildings, water reservoirs etc. and capital receipts from sale of land, the PRIs receive funds from the State Government and Government of India (GOI) in the form of grants-in-aid/loans for general administration, implementation of developmental schemes/works, creation of infrastructure in rural areas etc. Funds are also provided under recommendations of the Central/State Finance Commissions.

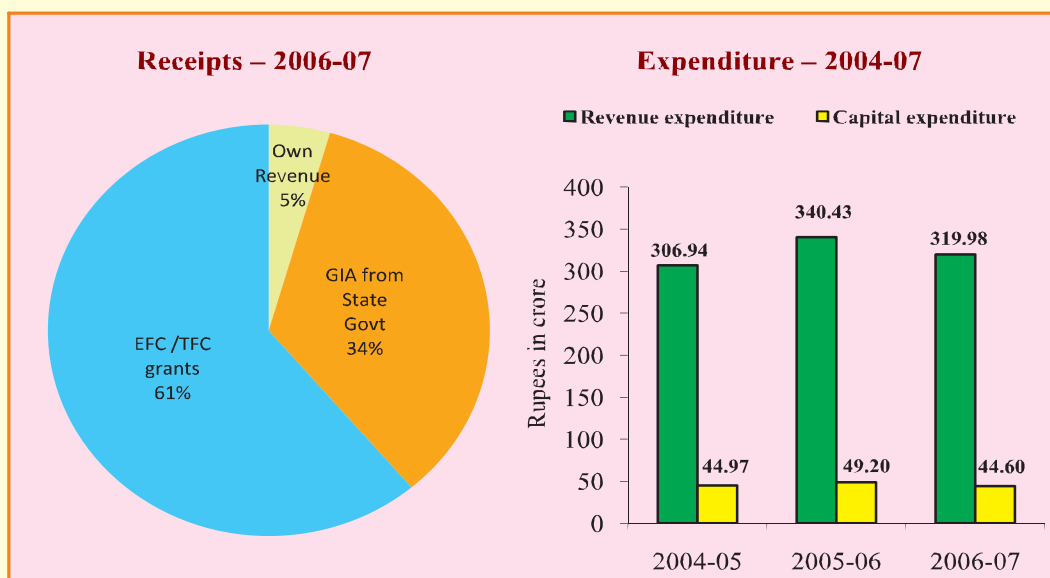
There was no mechanism with the PRD for centralised collection of data on the receipts and expenditure of the various tiers of PRIs for further compilation and processing. However, the position of receipts and expenditure of PRIs for the period 2004-07 based on data made available (June 2009) by the PRD is as under:

(Rupees in crore)

Particulars	2004-05	2005-06	2006-07
<b>(A) Revenue receipts</b>			
Own Tax	1.68	2.59	2.25
Own Non-Tax	13.51	12.33	13.99
<b>Own Revenue</b>	<b>15.19</b>	<b>14.92</b>	<b>16.24</b>
Grants-in-aid (GIA) from State Government	111.83	128.72	125.37
EFC /Twelfth Finance Commission (TFC) grants	224.89	245.99	222.97
<b>Total Receipts</b>	<b>351.91*</b>	<b>389.63*</b>	<b>364.58*</b>

Particulars	2004-05	2005-06	2006-07
<b>(B) Expenditure</b>			
Revenue expenditure (Pay and allowances and maintenance expenditure)	306.94	340.43	319.98
Capital expenditure	44.97	49.20	44.60
<b>Total expenditure</b>	<b>351.91</b>	<b>389.63</b>	<b>364.58</b>

\* In addition, grants of Rs 135.54 crore, Rs 157.57 crore and Rs 180 crore were released during 2004-05, 2005-06 and 2006-07 respectively as per recommendations of Second and Third State Finance Commissions and same amounts were booked as expenditure by PRD in the relevant years.



The above position indicates that:

- 'Own Revenue' of the PRIs in 2006-07 constituted only 4.45 per cent of their total receipts. Thus, they were largely dependent on Government grants.
- While grants-in-aid from State Government (excluding State Finance Commission grants) and EFC/TFC grants had decreased by 7.04 per cent from Rs 374.71 in 2005-06 to Rs 348.34 crore in 2006-07, the own revenue of PRIs increased marginally by 8.85 per cent from Rs 14.92 crore in 2005-06 to Rs 16.24 crore in 2006-07.
- Total expenditure of PRIs decreased by 6.43 per cent from Rs 389.63 crore in 2005-06 to Rs 364.58 crore in 2006-07. Revenue expenditure decreased by 6.01 per cent from Rs 340.43 crore in 2005-06 to Rs 319.98 crore in 2006-07 while capital expenditure decreased by 9.35 per cent from Rs 49.20 crore in 2005-06 to Rs 44.60 crore in 2006-07. Separate bifurcation of capital and revenue expenditure out of State Finance Commission grants was not made available by the PRD.

### 1.6.1.2 Rural Development Department

The position of receipts and expenditure of Rural Development Department (RDD) for the years 2005-06 and 2006-07 based on data made available (October 2009) by the RDD is as under:

(Rupees in crore)

Particulars	2005-06						2006-07					
	Opening balance	Receipts	Total available fund	Expenditure	Percentage of expenditure to total fund	Closing balance	Opening balance	Receipts	Total available fund	Expenditure	Percentage of expenditure to total fund	Closing balance
CSS	346.81	805.67	1,152.48	843.85	73.22	308.63	365.46	1,573.73	1,939.19	1,521.85	78.48	417.34
SSS	181.86	173.35	355.21	172.70	48.62	182.51	211.12	149.25	360.37	179.99	49.95	180.38
<b>Total</b>	<b>528.67</b>	<b>979.02</b>	<b>1,507.69</b>	<b>1,016.55</b>	<b>67.42</b>	<b>491.14</b>	<b>576.58</b>	<b>1,722.98</b>	<b>2,299.56</b>	<b>1,701.84</b>	<b>74.01</b>	<b>597.72</b>

(CSS: Centrally Sponsored Scheme; SSS: State Sponsored Scheme)

The above table reveals that:

- There was difference of Rs 85.44 crore between the closing balances of 2005-06 and the opening balances of 2006-07. RDD attributed (January 2010) the difference to non-inclusion of release made by the Central and State Governments at the end of the 2005-06 and interest accrued for 2005-06 but credited at the beginning of next financial year. The procedure adopted by the State Government was not appropriate as the receipts should have been credited under the Receipt Head of the relevant year instead of increasing the opening balance with reference to closing balance of preceding year.
- During 2005-06 and 2006-07, RDD could utilise only 67.42 and 74.01 per cent of total available funds under Centrally Sponsored Schemes and State Sponsored Schemes.

### 1.6.2 Devolution of funds

#### 1.6.2.1 Twelfth Finance Commission grants

The position of grants released by GOI and further release by the State Government to PRIs under recommendations of the Twelfth Finance Commission (TFC) during 2006-07 is as under:

(Rupees in crore)

Grants received from GOI by the State Government		Due date for release of grants by State Government to PRIs	Grants released by the State Government to PRIs		No. of days for delayed release of grants
Amount	Date of receipt of grants		Amount	Date of release of grants to PRIs	
123.00 (I Instalment)	14.11.2006	29.11.2006	123.00	06.12.2006	07
123.00 (II Instalment)	14.03.2007	29.03.2007	99.94	31.03.2007	02
			23.06	12.06.2007	75

As per guidelines issued by GOI, grants of TFC were required to be transferred by State Government to the PRIs within 15 days of the same being

credited to the State Government Accounts failing which State Government was liable to transfer interest amount to PRIs at RBI Bank rate.

It was observed that State Government released TFC grants to PRIs with a delay of two to 75 days which resulted in creation of avoidable interest liability of Rs 45.87 lakh at the RBI Bank rate of six *per cent* per annum on State exchequer.

### **1.6.2.2 State Finance Commission grants**

Third State Finance Commission (TSFC) recommended the grants of Rs 240.06 crore for the year 2006-07 against which State Government released Rs 180 crore to PRIs. Short release of grants was attributed (April 2010) to acceptance of recommendations of final Report of TSFC from 2008-09.

### **1.6.3 Devolution of functions**

State Government decided (June 2003) to devolve all 29 subjects listed in the Eleventh Schedule of the Constitution to the PRIs. However, funds, functions and functionaries of only 18 subjects were transferred as of March 2007. Eleven functions not yet transferred to PRIs include important areas like Public health, Animal husbandry, Small scale industries, *Khadi* village and cottage industries, Rural electrification, Technical and vocational education and Family welfare etc.

## **1.7 Maintenance of accounts**

### **1.7.1 Delayed submission of annual accounts**

Annual accounts of ZPs (RDC) for the year 2005-06 were required to be sent to the RDD by 30 September 2006. It was, however, observed that annual accounts for the year 2005-06 were sent (December 2006 to August 2008) by 30 ZPs (RDC) with delays ranging from two months 18 days to 22 months 11 days. ZPs (RDC), Jodhpur and Pali did not send their accounts as of October 2009. Reasons for delayed submission and non- submission of accounts were neither on records nor intimated (October 2009) by RDD.

Similarly, annual accounts of ZPs (PC) are required to be sent to the PRD by 15 May of the following year. The position of timely/delayed submission of accounts by ZPs (PC) to the PRD could not be verified by Audit, as PRD did not furnish desired information even though called for (June 2009) by Audit.

### **1.7.2 Non-rectification of differences between cash books and Personal Deposit (PD)/Bank pass books**

As per provisions of RPRR, 1996 all the transactions (deposit and withdrawal) of ZP/PS during each month were required to be reconciled with PD/Bank pass books and differences, if any, were to be rectified.



Test check of records revealed that one ZP and ten PSs had not rectified the differences (as on 31 March 2006) of Rs 1.25 crore (*Appendix-I*) between the cash books and PD/Bank pass books. There were exceptionally huge differences in ZP, Karauli (Rs 17.16 lakh) and PSs, Sangod (Rs 31.28 lakh), Ramgarh (Rs 16.83 lakh) and Ladpura (Rs 16.73 lakh).

## **1.8 Budgetary and internal control**

The performance of the PRIs in relation to their functions was not effective due to weak internal control mechanism resulting in deficient fund management, ineffective monitoring of activities etc., as detailed in the succeeding paragraphs.

### **1.8.1 Excess expenditure over the allotted funds**

Six ZPs and 14 PSs incurred excess expenditure over the funds authorised/received due to which there were minus balances of funds of Rs 9.20 crore under various heads of accounts/schemes as on 31 March 2006 (*Appendix-II*). Excess expenditure was met from the funds lying unutilised under other schemes. This reflects weak internal control and financial indiscipline in PRIs.

Two ZPs and two PSs while accepting the facts stated (June 2006 to February 2007) that action was being taken for obtaining regularisation/allotment/reimbursement of funds from the departments concerned. No reply was furnished by remaining four ZPs and 12 PSs.

### **1.8.2 Non-refund of balances lying unutilised under closed schemes**

**1.8.2.1** Rural Development Department instructed (November 1997 and March 2004) ZPs that unspent amounts of closed schemes be transferred to the scheme in which the closed schemes had been amalgamated or to refund the same to the respective departments.

Test check of records for the year 2005-06 revealed that in three ZPs unspent funds relating to various closed schemes aggregating Rs 3.10 crore were lying blocked in their PD Accounts for three to six years as of March 2006. These were neither utilised in accordance with the guidelines of the schemes nor refunded to the department concerned (*Appendix-III*).

On this being pointed out, ZP, Alwar stated (February 2007) that there was nil balance in closed schemes. The reply was not tenable as the balance of Rs 152.75 lakh was shown in closed schemes in accounts of ZP, Alwar for the year 2005-06. ZPs, Ajmer and Karauli did not furnish any reply relevant to the audit point.

**1.8.2.2** Similarly, in four PSs unspent funds aggregating Rs 2.03 crore were lying in their PD accounts pertaining to various closed/inactive schemes,



where no transaction had taken place during last seven to 15 years as of March 2006. These were neither refunded to Government nor the balances transferred to the amalgamated schemes (*Appendix-III*).

On this being pointed out, PSs, Riyanbari and Dudu stated (January and March 2007) that action was being taken to refund the funds. PSs, Kuchaman City and Kathumar did not furnish any reply.

### **1.8.3 Advances lying unadjusted/unrecovered**

In three ZPs and 11 PSs, advances aggregating Rs 34.74 lakh for purchase of food grain, participating in departmental examination, travelling allowance etc., disbursed upto March 2006 were outstanding against officials/ex-Sarpanches in 348 cases for the last three to 47 years as of March 2009 (*Appendix-IV*). This indicated lack of effective and efficient control mechanism in these PRIs. Possibilities of recovery of advances outstanding very long since are also remote.

On this being pointed out, two ZPs accepted the facts and stated (November 2006 and February 2007) that action for recovery of outstanding advances was being taken. The remaining one ZP and 11 PSs did not furnish any reply.

### **1.8.4 Outstanding utilisation certificates**

Against advances of Rs 314.76 crore given by 27 ZPs (RDC) up to March 2007, utilisation certificates (UCs) of Rs 300.14 crore were pending from the executing agencies as of March 2008 and the position of pending UCs as of March 2009 was not made available by the RDD. The PRD did not furnish any information in respect of UCs pending with ZPs (PC) even though called for (June 2009) by Audit.

### **1.8.5 Arrears of audit and audit fee**

Director, Local Fund Audit Department (DLFAD) is the statutory auditor for the accounts of PRIs. Audit fee at prescribed rate is paid to the DLFAD by PRIs. As of March 2009, audit fee of Rs 1.38 crore for the period up to March 2007 remained to be paid to DLFAD by 125 PRIs.

Audit of 5,545 PRIs (ZPs: 14, PSs: 146 and GPs: 5,385) out of 9,458 PRIs (ZPs: 32, PSs: 237 and GPs: 9,189) by DLFAD was pending as of March 2009.

## **1.9 Lack of response to audit observations**

**1.9.1** Up to March 2007, 4,48,227 paragraphs of 31,388 Inspection Reports<sup>3</sup> (IRs) in respect of PRIs issued by DLFAD were pending for settlement at the

3. Number of IRs issued upto 2001-02 not made available by DLFAD.

end of March 2009. First compliance to 209 IRs was also not received as at March 2009. Besides, 58,861 cases of embezzlement involving Rs 121.69 crore for the period upto 2006-07 were also pending for action as of March 2009.

**1.9.2** A total number of 1,296 IRs of ZPs and PSs comprising 10,405 paragraphs involving monetary value of Rs 1,717.44 crore issued by office of the Principal Accountant General (upto July 2004) and thereafter by office of the Senior Deputy Accountant General (Local Bodies Audit &Accounts) up to the period 2006-07 were pending for settlement at the end of March 2010 as detailed below:

(Rupees in crore)

Year	Inspection Reports	Paragraphs	Money value
Upto 1999-2000	43	90	13.96
2000-01	28	45	49.73
2001-02	73	171	23.08
2002-03	133	405	78.73
2003-04	245	1,528	218.33
2004-05	341	3,287	360.92
2005-06	243	2,675	493.60
2006-07	190	2,204	479.09
<b>Total*</b>	<b>1,296</b>	<b>10,405</b>	<b>1,717.44</b>
* This includes 108 IRs comprising 435 outstanding paragraphs of Soil Conservation Department.			

## 1.10 Impact of audit

During 2006-07, the following actions were taken by the PRIs at the instance of C&AG's audit:

- Excess payments, double payments, dues, interest on excess cash balances, rent of shops etc., aggregating Rs 1.37 crore were recovered in 189 cases.
- Rupees 1.33 lakh diverted from one scheme to another in two cases was credited back to the schemes concerned.
- Unutilised funds of Rs 5.27 crore in 22 cases were surrendered to Government/funding agencies.
- Rupees 14.87 lakh paid by ZP (RDC), Bikaner to *Jodhpur Vidyut Vitran Nigam Limited* as supervision charges for execution of works under Centrally Sponsored Schemes in contravention of instructions was recovered (January-February 2009).

### 1.11 Conclusion

The 'own revenue' of PRIs was meagre and therefore they were largely dependent on Government grants eroding their financial autonomy.

Widespread and persistent irregularities and deviations from prescribed accounting and budgetary control procedures indicating lack of adequate internal control mechanism in the PRIs such as non-reconciliation/rectification of differences in cash balances, expenditure in excess of the allotted funds, non-adjustment/recovery of outstanding advances against individuals for a long period, non-submission of UCs and non-refund of unspent balances of closed/inactive schemes were noticed in audit.

There was no mechanism with the PRD for centralised database on the receipts and expenditure of various tiers of PRIs for monitoring and decision making purpose.

There were huge pendency of audit observations and delays in their settlement.

### 1.12 Recommendations

- PRIs should be encouraged to augment their own resources so as to reduce dependency on the Government assistance.
- PRIs should ensure optimum utilisation of the available resources.
- Internal control and monitoring mechanisms should be strengthened to ensure monthly reconciliation and rectification of differences between balances as per cash books and PD/Bank pass books, timely refund of unutilised funds to Government and to exercise checks on excess expenditure over the allotted funds.
- Special and concerted efforts are needed to adjust/recover the old outstanding advances from the employees or public representatives concerned.
- Special drive should be launched for refund of the unutilised funds of closed/inactive schemes by PRIs to the Government Departments/funding agencies concerned.