

PART – A

CHAPTER – I

ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS:

1.1 INTRODUCTION

The 73rd Amendment envisages a three-tier system of Panchayats (a) Gaon Panchayat at village level, (b) Anchalik Panchayat at Intermediate Panchayat level and (c) Zilla Parishad at the district level.

The eleventh schedule to the Constitution delineates 29 (twenty-nine) functions to be devolved on the Panchayats. It, however, does not automatically confer any power on PRIs or entrust them with responsibility. The State legislature has been empowered by the 73rd Amendment to decide and to confer powers and responsibilities on PRIs.

The Constitution also provides that the State Government shall appoint a Finance Commission every fifth year under Article 234-I to review the financial position of the Panchayats and recommend as to (i) the distribution between the state and the panchayats, of the net proceed of taxes, duties, tolls and fees etc leviable by the state which may be divided between them and how allocation would be made among various tiers of Panchayats (ii) what taxes, duties, tolls and fees may be assigned to the panchayat (iii) the grants-in-aid to the panchayats from the Consolidated Fund of the State.

The report of the Commission together with the memorandum of action on it is to be laid before the State legislature.

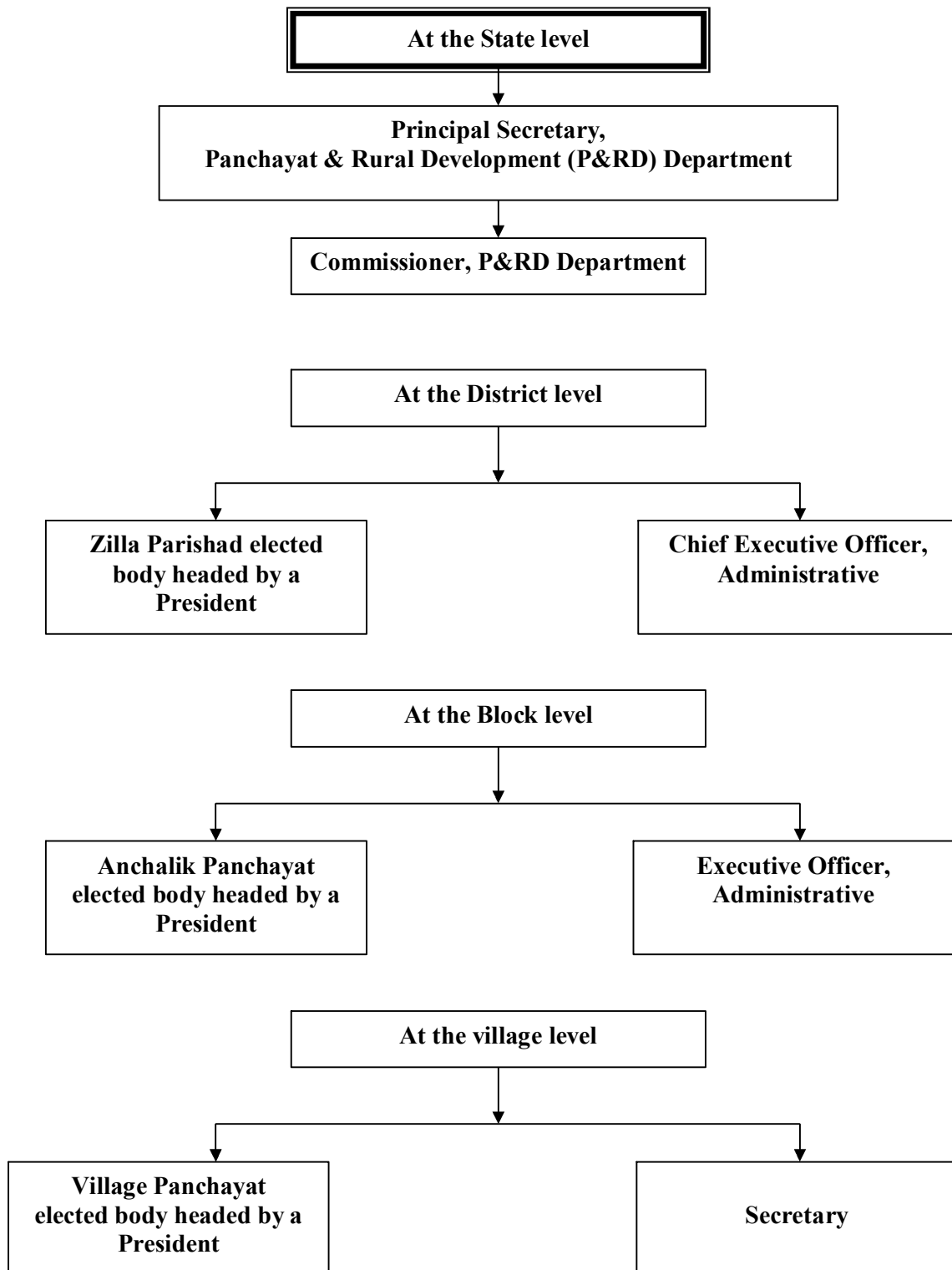
The three tier Panchayat system envisaged in the Assam Panchayat Act (APA) 1994 came into force in December 2001 when the first general election for the ZPs, APs and GPs were held. Since then, general election for the panchayats have continued to be held every five years and the last election was held in March 2007.

1.2 Organizational structure of the PRIs and Organizational set up of Panchayats

There are 20 Zilla Parishads, 185 Anchalik Panchayats and 2202 Gaon Panchayats in the State of Assam. Panchayat and Rural Development Department (P&RD) headed by a

Commissioner/Secretary, P&RD Department exercises administrative control over the Panchayat Raj Institutions (PRI).

(The organogram given below depicts the organizational set up of PRIs in Assam)



The Act envisages the functioning of the ZPs, APs and GPs through ten functional Standing Committees having elected representative and concerned officials as members.

1.3 Devolution of functions, functionaries and funds

For balancing the distribution of powers and function among the PRIs, the basic criteria for such distribution was that a function should be performed by one tier of PRI to which it belongs naturally. In case of overlapping of functions, there should be mechanism for inter tier co-ordination. For this purpose a detailed activity mapping of transferred functions should be conducted for clear distribution of functions among the three tier of PRIs.

The State Government reported as on June 2007 that it transferred the 23 activities belonging to 17 departments out of 29 included in the 11th Schedule of the Constitution to the PRIs along with funds and functionaries (17 departments). But scrutiny of records revealed that these functions were still not performed at ZP/AP and GP level. Most of the departments were performing the devolved functions themselves whereas ZPs of test checked districts were denying the existence of any activity mapping prepared and issued by the State Government for devolutions of 23 functions.

1.4 Area and population covered

The Assam Panchayat Act extends to the whole of Assam in areas other than Municipalities/Municipal Corporation/Cantonment Areas/two Autonomous Districts, Karbi Anglong and NC Hills. With the creation of Bodoland Territorial Area District (BTAD), the districts like Kokrajhar, Chirang, Udalguri and Baska have been excluded from the purview of Panchayat Act. The Rural Area of the state is estimated at 77667.99 sq kms which accounts for nearly 99% (ninety-nine per cent) of the total geographical area of the state. Thus ninety-nine per cent of the total area of the state inhabited by 1.99 crore of rural population which is 89% (eighty-nine per cent) of total population (2.66 crore as per 2001 census) came under the purview of the Act.

1.5 Power, functions and duties vested with PRIs

The Assam Panchayat Act vests PRIs with the following powers and duties:-

- (i) to prepare Developmental Plan/Annual Action Plan, Budget of its estimated receipts and disbursements.
- (ii) to implement schemes for economic development and social justice as may be drawn up by or entrusted upon it (in pursuance of the 11th Schedule of the Constitution).
- (iii) to manage or maintain any work of public utility and
- (iv) to collect revenue and utilization of such fund for developmental works.

1.6 Status of creation of database on finances and maintenance of accounts:

The formats prescribed by the C&AG of India for maintenance of database on finances of PRIs is yet to be adopted by the Government of Assam.

The State Government intimated (June 2008) that the Eleventh Finance Commission (EFC) recommended Local Body Grant of Rs.115.06 crore out of which Rs.3.23 crore was earmarked for maintenance of accounts and Rs.6.50 crore for creation of database during the tenure of EFC.

The State Government, however, had developed and introduced only one Software package namely PRISOM for maintenance of accounts and database for ZPs, APs and GPs respectively. The status of implementation of Software package was not intimated.

1.7 Source of Revenue

There were mainly two sources of fund for Local Bodies (1) Government Grants (2) Own revenues. Own revenue resource comprises tax and non-tax revenues realized by them. Other resource comprises (a) funds released by the GOI and State Government based on recommendation of SFC, Eleventh & Twelfth FC (EFC & TFC) etc (b) GOI's share released for various Central Sector Schemes.

The revenue received by the PRIs during last three years according to their source is as follows:

Source of revenue		Amount (Rupees in crore)		
		2005-06	2006-07	2007-08
Central Government Grants	GOI share of CSS directly released to DRDA	539.65	678.87	848.60
	Additional Central Assistance and FC grants released through State Budget	52.60	-	140.20
	Total	592.25	678.87	988.80
State Government	Salary Grants	27.30	45.41	44.05
	Other Grants (SFC)	-	-	-

Grants (Head-2515-ORDP)	State share of CSS	205.26	343.45	250.52
	Total	232.56	388.86	294.57
Grand total (Grants received from Central and State Government.		824.81	1067.73	1283.37
Own Source of Revenue (OSR)	Goan Panchayat	3.38	NA	NA
	Anchalik Panchayat	0.21	NA	NA
	Zilla Parishad	4.97	NA	NA
Total		8.56	NA	NA
Total revenue from all sources (Govt Grants + OSR)		833.37	NA	NA
Percentage of Government Grants to total revenue		98.98 per cent	NA	NA
Percentage of OSR to total grants.		1.02 per cent	NA	NA

It would be seen from the above that during the period from 2005-06 to 2007-08 the PRIs continued to be overwhelmingly dependent on grants from the Central and State Governments.

1.7.1 Funds received from line Departments

The Panchayat & Rural Development Department (P&RD) could not furnish (March 2008) any information on the funds received by PRIs during 2005-06 to 2007-08 from various line departments of the State Government for implementation of programmes for Socio-economic development within their functional area.

1.8 Application of funds

The following table shows release of Central and State Governments Grants during 2005-06 to 2007-08 according to objects of expenditure of PRIs.

Year	Head	Amount released to PRIs		
		Central	State	Total
2005-06	Salary & Allowances	NIL	27.30	27.30
	Funds for implementation of schemes	539.65	205.26	744.91

	Other Grants	52.60	-	52.60
Total		592.25	232.56	824.81
2006-07	Salary & Allowances	nil	44.05	44.05
	Funds for implementation of schemes	678.87	343.45	1022.32
	Other Grants	-	-	-
Total		678.87	388.91	1067.73
2007-08	Salary & Allowances	NIL	44.05	44.05
	Funds for implementation of schemes	848.60	250.52	1099.12
	Other Grants	140.20	-	140.20
Total		988.80	294.57	1283.37

The P&RD has no consolidated information on expenditure incurred by the PRIs out of the funds received by them from all sources.

1.9 Allocation and utilization of State Finance Commission Grants

Two basic recommendations made by the 1st SFC of Assam are (i) share of state taxes for transfer to LBs should be at 2 per cent in each year (ii) 10% of MV Tax to be devolved to Rural Bodies. The State Government accepted the recommendation of the Commission in this regard. The Second SFC was constituted on 18-04-2001 to make recommendation on devolution of funds for five years from 2001-02 to 2005-06. The details of the Second SFC could not be ascertained. However, the State Finance Commission (SFC) made 260 recommendations of which 60 are accepted as mentioned in the Action Taken Report placed before the Legislature. The P&RD has no information about expenditures incurred by PRIs out of SFC Grants. The Third SFC was constituted on 22nd February 2006, details of which is not made available.

1.10 Allocation and utilization of Eleventh Finance Commission grants

Eleventh Finance Commission (EFC) had recommended total grants of Rs.116.72 crore to PRIs during the five years from 2000-01 to 2004-05 to augment the resources of panchayats there by enabling them to provide civic services in rural areas on their own. As per information furnished by Finance Department, Government of Assam, out of total grants of Rs.116.72 crore released during 2002-05, Rs.3.22 crore was earmarked for maintenance of

accounts in Anchalik Panchyats/Gaon Paynchayats Rs.6.50 crore for creation of data base relating to finance of local bodies and Rs.106.50 crore for maintenance of Civic Services. No records relating to allocation and utilization of grant amounting to Rs.0.50 crore was made available. The Director, Rural Development Department distributed the local body grants to PRIs through Zilla Parishads.

1.10.1 Non-release of Matching Share of EFC grants

According to Para 4.10 of the guidelines for the utilization of EFC grants, Local Bodies shall raise matching resources amounting to not less than 25 per cent of the grant received from the Central Government in case of PRIs and 50 per cent in case of ULBs. In case any local body is unable to provide the matching contribution, the State Government should provide the balance within three months or earlier to the concerned local body.

Test check of records revealed that during 2002-05 GOI released Rs.116.72 crore to the State Government for implementation of scheme under EFC. As per guidelines, 25 per cent of Central Share i.e Rs.29.18 crore should be borne by the PRIs or by the State Government, but it was seen that neither the PRIs nor the State Government released any amount against the Central Share of Rs.116.72 crore.

Thus, due to non-release of matching contribution of Rs.29.18 crore, the spirit of the programme was not honored which goes against the implementation of the programme as well.

1.10.2 PRISOM Software lying idle

Out of total EFC grants of Rs.116.72 crore pertaining to the year 2002-05, a sum of Rs 216.50 lakh was allocated to the Director P&RD. The amount was allocated under the budget component “Computerization and preparation of data base recommended by EFC, financial assistance of local bodies and maintenance of Panchayat Accounts.”

Scrutiny of information made available (April\09) by P&RD revealed that an amount of Rs. 209.13 lakh was spent for developing PRISOM software providing computers at PRIs level embodied with the above software, networking and training of staff of PRIs on the software so developed and installation of hardware with peripherals, and the balance Rs 7.37 lakh was kept in DCR (DCR No 848192 dated 2.4.08).

It was however, noticed that in 2 ZPs of Lakhimpur and Nagaon, 38 APs and 167 GPs of Lakhimpur and Tinsukia districts, data on finances of PRIs were not compiled by

utilizing the software (PRISOM). This resulted in unfruitful expenditure in these districts towards development of the software as well as procurement of computers with peripherals. The functioning of the software in other districts was not made available.

1.10.3 Non-reconciliation of EFC Grants

Scrutiny of information made available to audit by the Finance Department, Government of Assam revealed that as per UC submitted to Government of India, a sum of Rs.116.72 crore was received as EFC grants during the year 2002-05, but grants released to LBs showed only Rs.116.22 crore. Hence difference of Rs.0.50 crore needs to be reconciled. The matter was referred to the Urban Development and Finance Department of the State. But reply is awaited.

1.11 Twelfth Finance Commission Grants

The Twelfth Finance Commission (TFC) awarded Grants of Rs.526.00 crore for the PRIs of the State. The grants will be payable during the years from 2005-06 to 2009-10. Out of this, during the period from 2005-06 to 2006-07 GOI released Rs.157.80 crore to the State Government for implementation of schemes under TFC. Out of Rs. 157.80 crore released, during 2005-07, Rs.5.92 was crore earmarked for maintenance of accounts, Rs.9.56 crore for creation of data base on finances of PRIs, Rs.6.07 crore for O&M cost and Rs.136.32 crore for other income generating scheme/construction of Block development & Water Supply & Sanitation.

An overall audit of release and utilization of TFC grants during 2005-2007 could not be taken up due to non-furnishing of requisite documents and information by the State Government.

1.12 Overall financial position of PRIs

The P&RD Department had no consolidated information on opening balance, total receipts, total expenditure & closing balance in respect of PRIs. The Department has also not yet developed any system for monitoring all receipts and expenditure of the PRIs (March 2008).

1.13 Sectoral analysis

The accounting system prescribed by the State Government to be followed by the PRIs does not have a mechanism to capture receipts and expenditures under important sectors like education, health, nutrition, social forestry etc.that may help in carrying out sectoral analysis of such transactions.

1.14 District Planning Committee

Article 243 ZD of the Constitution of India provides for settling up of a District Planning Committee (DPC) for each district with a view to associating the LBs with the planning process through consolidation of rural and urban plans of the district as a whole and its integration with the State's planning process. In pursuance of the above constitutional provision, Section 3 of the APA 1994, stipulates the formation of DPC in each district to consolidate the plans prepared by ZPs, APs and GPs, Municipal Corporation, MBs and TCs and to prepare a draft development plan for the district as a whole.

In accordance with the provision of APA 1994, the GPs were required to forward their plan proposals to APs for consolidation and onward transmission to ZPs concerned. The DPC in the ZPs were to prepare the Annual District Development Plan (ADDP) based on fiscal ceiling communicated by the Planning Department duly incorporating the development plans of the APs and GPs. It was, however, revealed in the test check of ZPs that GPs/APs did not forward their plan proposals for consolidation and CEOs of the ZPs did not insist on the lower tiers of the PRIs to forward proposals as envisaged. In the absence of incorporation of defined needs at grass root level, the DPC/ZP prepared the ADDP in a routine manner. Thus the functioning of DPCs was found in audit to be irregular and ineffective.

Accounting Procedure:

1.15 Non-preparation of Annual Accounts

According to Section 103 of the Assam Panchayat Act 1994, every ZP is to prepare Annual Accounts of each financial year. In contravention of the provision of Panchayat Act, two (Nagaon and Lakhimpur) ZPs did not prepare the accounts although they incurred an expenditure of Rs.64.29 crore against the total receipts of Rs.65.84 crore for the financial year 2005-08 as detailed in table below :

<i>(Rupees in crore)</i>			
Year	Name of ZP	Total fund receipt	Total utilization of fund
2005-08	Nagaon	31.20	29.86
	North Lakhimpur	34.64	34.43
		65.84	64.29

1.16 Expenditure incurred without preparing budget

In accordance with section 27 (1) of the Assam Panchayat Act (APA) 1994, every GP is to approve and adopt the budget for the following financial year. However, 117 GPs as detailed in **Appendix – I** did not prepare, approve and adopt the budget for the 2002-07. Other 50 GPs except mentioned in appendix prepared the budget. Thus 117 GPs unauthorizedly spent Rs. 66.74 crore without any budget allocation during 2002-07.

1.17 Expenditure incurred in excess of budget provision

Gilamara AP, as given below, altogether spent Rs.52.15 lakh in excess of their budget provision under different heads without preparing any supplementary and revised estimates during 2002-06.

(Rupees in lakh)

Head of a/c	Year	Budget provision	Expenditure	Excess
R.D	2002-03	Rs. 11.80	Rs. 13.57	Rs. 1.77
R.D	2004-05	14.37	16.29	1.92
C.D	2002-03	3.13	6.31	3.18
C.D	2004-05	2.33	7.67	5.34
C.D	2005-06	4.99	8.31	3.32
Total		Rs. 36.62	Rs. 52.15	Rs. 15.53

1.17.1 Lapse in preparation of Budget

Budget is the most important tool for financial planning and control two APs (Gilamara and Dalgaon) did not exercise due care and diligence in the preparation of budget. The lapses noticed in the preparation of budgets were given below:

(Rupees in lakh)

Year	Name of AP	Total Estimates	Actual	Excess provision	Percentage of excess provision
2002-07	Gilamara	37.42	14.74	19.95	53.31
- do -	Dalgaon Sialmari	140.78	69.12	71.66	50.90
Total		178.20	83.86	91.61	51.40

(Source: Inspection Report of auditee units)

A comparison of receipts of the two APs revealed that against the actual collection of Rs.83.86 lakh the amount provided in the budget was Rs.178.20 lakh which indicated that budget was either inflated or collection was poor. Had the figure in the demand register and the actual

collection of the earlier years been taken into the consideration there would have been more accuracy in the budget, and the budget would have been more realistic.

1.18 Non-reconciliation of Cash balances

1.18.1 The Assam Panchayat Financial Rules stipulate that cash balance of the bank pass book of the AP shall be checked with reference to the cash book at the close of every month by way of reconciliation. However, Rs 8.00 lakh remained un-reconciled in respect of two APs (Dhakuakhana and Dalgaon Sialmari) at the end of financial year as given below:

(Amount in rupees)

Name of unit	Name of Scheme	Balance as per bank a/c	Balance as per cash book	Date	Difference
Dhakuakhana AP	IAY	29,51,816/-	24,57,250/-	31.03.08	4,94,566/-
Dalgaon Sialmari	NOAP	15,99,318/-	12,94,668/-	31.03.08	3,04,650/-
Total		45,51,134/-	37,51,918/-		7,99,216/-*

* Say Rs.8.00 lakh

1.18.2 Similarly, one ZP (Lakhimpur) during 2007-08 did not reconcile its balances as per cash book and bank pass book. A difference of Rs.3.24 lakh during 2007-08 remained un-reconciled at end of January 2008 as given below:

(Amount in Rupees)

Name of AP	Name of scheme	Balance as per bank a/c	Balance as per cash book	date	Difference
Lakhimpur	EFC	3,51,915/-	27,537/-	31-1-08	3,24,378/-
Total		3,51,915/-	27,537/-	31-1-08	3,24,378/-

In the absence of regular monthly reconciliation of cash balances indicates lack of internal control in the concerned PRIs. This is also fraught with the risk of misappropriation of fund going undetected.

1.19 Non-imposition of taxes, duties & fees

1.19.1 Section 25 of the APA,1994 provided that subject to such rules as may be made in this regard and subject to such maximum rates as the Government may prescribe, the GPs may impose taxes, duties and levy fees and tolls to augment their own resource base. The State Government also made rules and prescribed rates for imposition of taxes, duties and fees. However, due to non-implementation of bye-laws by GPs as required under sub-section 3 of

Section 25 of the Act, it resulted in non-imposition of taxes & fees, rendering them wholly dependent upon the State & Central Government Grants.

1.19.2 The APs/ZPs settle markets, ferries, fisheries as are vested in or placed under the administrative control of the respective PRIs with the lessee to augment their own resource base. In three APs (Ghilamara, Rupahihat and Begiagaon) during 2002-07 and two ZPs (Lakhimpur and Nagaon) during 2004-07 against a total cumulative demand of Rs.457.02 lakh, only Rs.190.37 lakh could be realized at the end of 31st March 2007. The unrealistic demand constituted 41.65 per cent of the total demand as given below:

				<i>(Rupees in lakh)</i>
Year	Name of unit	Demand	collection	shortfall
2004-07	Nagaon ZP	58.44	43.90	
2002-07	Gilamara AP	22.14	14.26	
2002-07	Rupahihat AP	133.33	78.12	
2004-07	Lakhimpur ZP	215.27	108.95	
2002-07	Begia Gaon AP	27.84	21.42	
Total		457.02	266.65	190.37

This is indicative of the lack of initiative and poor internal control in APs & ZPs resulting in weakening of their own resource base.

1.20 Non-maintenance of record/registers

The Assam Panchayat and Financial Rules prescribe that GP shall maintain registers and books like Demand and Collection Register, Allotment Register, Work Register, Measurement Book, Assets Register etc for its smooth functioning as well as for depicting a true and fair state of affairs. Scrutiny of records of 167 GPs revealed that the GPs failed to maintain the prescribed records and books pertaining to the years 2002-03 to 2006-07 mostly for want of knowledge on the part of the Panchayat functionaries on how to keep records.

In the absence of mandatory subsidiary records and registers, true and fair view of the use of resources and assets could not be ascertained.

1.21 Assets Management

The P&RD Department has not yet developed (March 2008) any effective system for valuation of assets created by the PRIs during a year and for assets accounting. It has also not created any mechanism for obtaining data on assets creation on regular basis from the PRIs that are financed out of the State budget.