

## CHAPTER- I

### AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Introduction

With the 73rd Constitutional Amendment Act, the entire contour of democratic decentralization in rural areas of the country has changed. It has enhanced the powers of PRIs and facilitated people-oriented developmental activities. The salient features of the Act are : Gram Sabha in each village, a three-tier system of Panchayats at village, block and district levels, direct elections of members at all levels, reservation of seats for Schedule Casts/ Schedule Tribe (SC/ST) candidates, reservation of one-third of total seats for women, five year tenure for every Panchayat. Besides, the Act provided in case of dissolution of an elected Panchayat elections to be held within six months, appointment of Finance Commission by every State Government to review the financial position of Panchayats and appointment of a State Election Commission to conduct elections for Local Bodies in every five years.

State Government, through legislation, amended the laws relating to the three tiers of Panchayati Raj Institution (PRIs) of the State. The PRIs in the State of Orissa are regulated by the Orissa Zilla Parishad Act, 1991 (OZPA) at district level, Orissa Panchayat Samiti Act, 1959 (OPSA) at block level and Orissa Gram Panchayat Act, 1964 (OGPA) at village level. The PRI system comprises elected bodies – Gram Panchayat (GP), Panchayat Samiti (PS), and Zilla Parishad (ZP) constituting three tiers in the State.

The Comptroller and Auditor General of India (CAG) was entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit of all the three-tiers of PRIs as recommended by the Eleventh Finance Commission (EFC) and accordingly the State Government entrusted responsibility for providing Technical Guidance and Supervision (TGS) to the CAG under section 20(I) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971. Audit of all PSs and ZPs are being conducted under Section 14 and 20 *per cent* of GPs (from September 2003) under section 20(1) of the CAG's (DPC) Act 1971.

Though 20 *percent* of PSs were also entrusted (May 2004) to CAG for audit under Section 20(1) audit of all 314 PSs is being conducted under Section 14 of the above Act, since they are coming under audit jurisdiction by virtue of financial assistance received by them.

## **1.2 Organizational Set up**

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

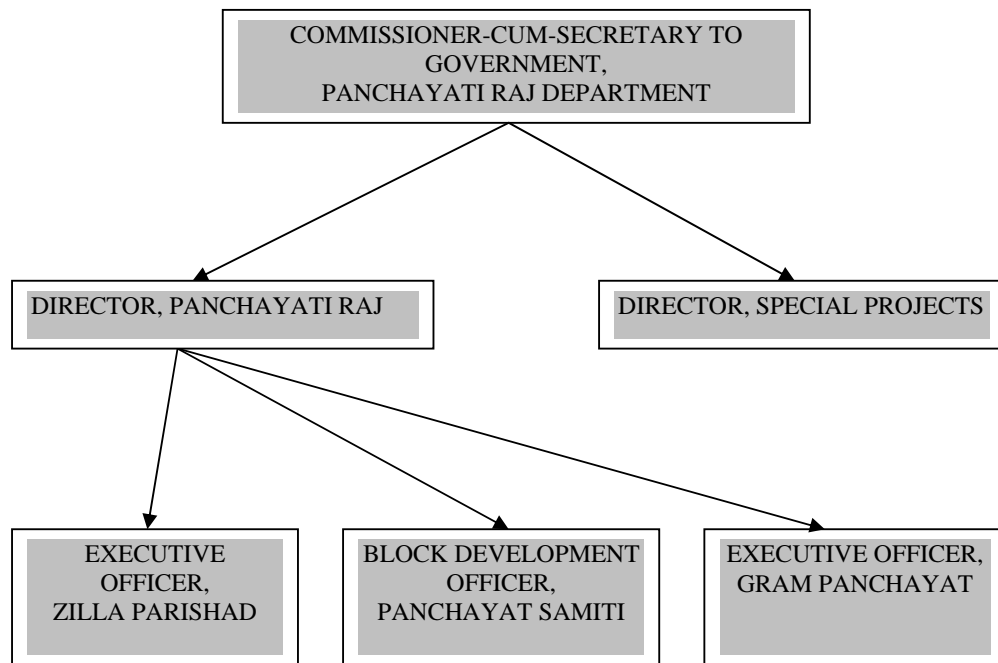
The State has 30 districts and each district has a ZP. The ZP is controlled by an elected body headed by a President, who is elected from among the elected representatives of the ZP. The District Collector is designated as the Chief Executive Officer (CEO). Under the CEO, one Executive Officer (EO) discharges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

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

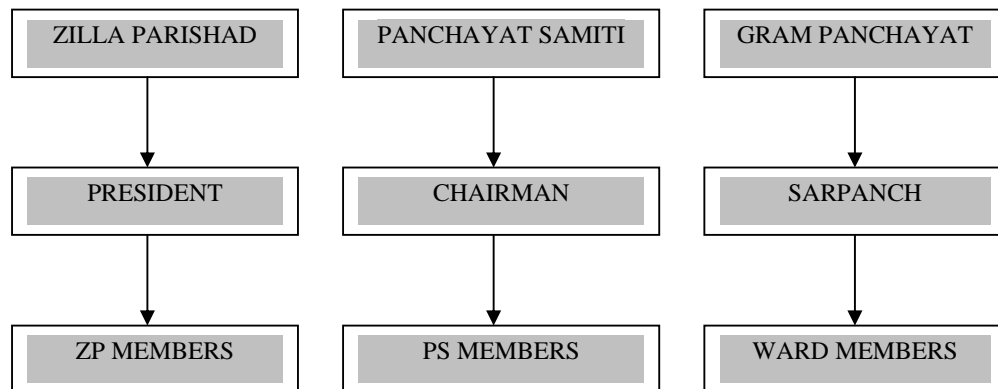
At the GP level, the elected members headed by a Sarpanch constituted the GP. The State Government by legislation declared the Village Level Worker (VLW) as the Executive Officer and entrusted the general supervision and overall control of the GP who discharges his duties under the supervision of the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

As of March 2008, 30 ZPs, 314 PSs and 6234 GPs were functioning in Orissa. Election to the PRIs was last conducted in February 2007.

The organizational chart of the PRIs is indicated below.



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



### 1.3 Financial Position of PRIs

The main sources of income of PRIs in the State are funds received from Government of India (GOI) under various Centrally Sponsored Schemes (CSS) viz. †SGRY, SGSY, IAY, NREGS, NFFWP etc., grants received from State Government as per the recommendation of State Finance Commission, grants received as per Central Finance Commission recommendations, funds received under State Sponsored Schemes like §GGY, BKBK etc., own resources mobilized through tax and non-tax revenue (GPs) and State share of the CSS.

The position of receipts and expenditure of PRIs during the last three years is as follows.

**Table: 1 Receipt of PRIs (Rupees in crore)**

| Name of the institutions | Receipts      |                |                |                |
|--------------------------|---------------|----------------|----------------|----------------|
|                          |               | 2005-06        | 2006-07        | 2007-08        |
| GPs                      | Grants in aid | 533.35         | 553.85         | 454.49         |
|                          | Own source    | 9.85           | 10.12          | 10.43          |
| PSs                      | Grants in aid | 421.23         | 1166.32        | 1337.80        |
|                          | Own source    | -              | -              | -              |
| ZPs                      | Grants in aid | 98.48          | 95.98          | 174.20         |
|                          | Own source    | -              | -              | -              |
| <b>Total</b>             |               | <b>1062.91</b> | <b>1826.27</b> | <b>1976.92</b> |

**Table :2 Expenditure of PRIs (Rupees in crore)**

| Name of the institutions | Expenditure    |                |                |
|--------------------------|----------------|----------------|----------------|
|                          | 2005-06        | 2006-07        | 2007-08        |
| GPs                      | 523.59         | 477.82         | 379.62         |
| PSs                      | 400.45         | 1229.34        | 1274.65        |
| ZPs                      | 96.98          | 71.27          | 148.23         |
| <b>Total</b>             | <b>1021.02</b> | <b>1778.43</b> | <b>1802.50</b> |

**Source : Information furnished by PR Department**

As could be seen from the table, only GPs are mobilizing own sources of revenue (around 2 percent of total receipt) since they are empowered to collect various tax and non-tax revenues as per the OGPA.

†SGRY - Sampoorna Gramin Rojagar Yojana, SGSY –Swarna Jayanti Swarajgar Yojana, IAY- Indira Awas Yojana, , NREGS- National Rural Employment Guarantee Scheme, NFFWP-National Food For Work Programme,

§ GGY- Gopabandhu Gramina Yojana, BKBK- Biju Kalahandi Bolangir Koraput

#### **1.4 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 Sections etc.
- Handicrafts, Cottage Industry, Khadi and Village Industries etc.
- Education, Sports and Culture.

The overall monitoring and review of the programmes are conducted 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 Honourable Minister, Rural Development with three Co-Chairmen and 29 members. 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 Departments, Superintendent of District Local Fund Audit Offices and one Officer in charge of public grievances nominated by the Collector as the members.

#### **1.5 Maintenance of Accounts by PRIs**

The Executive Officer in ZP and the Block Development Officer (BDO) in PS are responsible for maintenance of various books of accounts and annual financial statements. In case of GPs, the Executive officer/Secretary maintains the accounts.

The Annual Accounts are to be prepared by GPs in forms prescribed in Rule 159 of the GP Accounting Rules. The State Government has not adopted the new formats recommended by CAG for GPs (July 2009). Despite clear provision in the Act and Rules, the GPs are not preparing the Annual Accounts in the said forms.

As far as PSs are concerned, the new format prescribed by the CAG has been accepted with effect from 1<sup>st</sup> April 2004 without making any modifications. Though it is adopted and clear directions were issued by the State Government (April 2004), majority of the PSs in the State were not preparing their Annual Accounts in the new formats.

In respect of ZPs, neither the new formats prescribed by CAG had been accepted nor specific forms were prescribed for the preparation of the Annual Accounts of the ZP in the relevant Act/Rules. Thus, annual accounts were not being prepared by ZPs.

### **1.6 Non preparation of Budget Estimates**

As per Section 98(1) of the Gram Panchayat Act and Section 24(1) of the Panchayat Samiti Act, the GPs and PSs shall in each year, prepare and place before the Grama Sabha and Panchayat Samiti respectively for its consideration, a budget estimate showing the probable receipts and expenditures for the following financial year and submit the budget to the respective elected body for its approval.

Test check of records in 12 PSs and 43 GPs revealed that none of the PSs and GPs has prepared the budget estimates though Rs 49.50 crore and Rs 55.68 lakh was spent by these PSs and GPs respectively during 2007-08. The State Government is releasing funds based on Annual Action plans submitted by the PRIs and not on the Budget Estimates, and the expenditures of the PRIs are not subjected to local budgetary control.

In the absence of the approved Budget Estimates (BE), the expenditure incurred by the PRIs was irregular and the probable receipts and expenditures for the financial year could not be ascertained and no financial control could be exercised in the GPs and PSs. The same position existed in the case of ZPs also.

### **1.7 Audit – Statutory**

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. CAG provides Technical Guidance and

Supervision (TGS) under Section 20(I) of CAG's (DPC) Act, 1971 for the proper maintenance of accounts and audit of PRIs.

The ELFA has not taken up audit of the accounts of ZPs since inception though it was entrusted to the ELFA vide Orissa Zilla Parishad (Amendment) Act, 2000. The audit of PSs and GPs are being carried out regularly by ELFA. The arrear position in respect of audit by ELFA is given in the following table.

| <b>Number of PRIs</b> | <b>Number of accounts in arrears</b> |
|-----------------------|--------------------------------------|
| 3227 GPs              | 9233                                 |
| 29 PSs                | 45                                   |

Though the accounting rules provide for Certification of Annual Accounts of PRIs by ELFA, no Certification of Annual Accounts had been done so far.

### **1.8 Audit by CAG**

The audit of PRIs is being conducted by CAG under section 14(1) & 20 (1) of CAG (DPC) Act, 1971 and the audit of the accounts of 21 ZPs, 243 PSs and 1065 GPs were completed during the year 2007-08.

### **1.9 Non-clearance of objections raised by CAG**

CAG conducts the audit of PRIs under Section 14 and 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective DDOs in the form of Inspection Reports (IRs) with a copy to the Government. The objections raised in the IRs were to be attended promptly and the replies were to be furnished to the Senior Deputy Accountant General (LBA&A), Orissa along with action taken on such objections. But no compliance to these objections was submitted by the concerned DDOs resulting in non settlement of outstanding IR paras for long period. As regards the pendency of audit objections raised by the CAG of India, 12782 paras relating to PSs reported through 1521 Inspection Reports pertaining to the period from 1988-89 to 2007-08 issued by the Senior Deputy Accountant General (LBA&A), Orissa were pending for settlement as of March 2008. In respect of GPs, 1489 IRs containing 17377 paras issued pertaining to the years 2005-06, 2006-07, and 2007-08 were pending. Year wise details of the pending positions as on March 2008 were as follows:

| Sl No | Particulars of PRIs | Period        | No of I.Rs  | No of Paras  |
|-------|---------------------|---------------|-------------|--------------|
| 1     | Panchayat Samiti    | 1988-89       | 1052        | 7684         |
|       |                     | to<br>2005-06 |             |              |
|       |                     | 2006-07       | 176         | 2176         |
|       |                     | 2007-08       | 293         | 2922         |
|       | <b>Total</b>        |               | <b>1521</b> | <b>12782</b> |
| 2.    | Gram Panchayats     | 2006-07       | 432         | 4329         |
|       |                     | 2007-08       | 1057        | 13048        |
|       | <b>Total</b>        |               | <b>1489</b> | <b>17377</b> |

#### 1.10 Internal Audit

The Internal Audit System, known as Common Cadre Audit (CCA), exist in 20 out of 38 Civil Departments of the Government and functions under the control of Financial Advisor of the respective Departments. Though there is CCA system functioning in the PR Department, the Local Fund Audit (LFA) of Finance Department is the statutory auditor of PRIs and Urban Local Bodies (ULBs). The CCA is conducting only special audit whenever required.

#### 1.11 District Planning Committees

The State Government enacted the 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 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 implementation 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 the 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 State Planning Commission. The TSIs were to report as per directions of Planning and Coordination 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.

## **1.12 COMMENTS ON ACCOUNTS**

### **1.12.1 Non-utilization of Funds.**

Test check of closing balances lying in the accounts of 155 PRIs for the year ended 31 March 2008 revealed that substantial amounts received for implementation of NREGA/SGRY/SGSY/BRGF etc were not utilized within the period specified as detailed under:

**(Rupees in crore)**

| <b>Name of the PRIs</b> | <b>No of PRIs</b> | <b>Opening balance</b> | <b>Receipt during the year</b> | <b>Total Receipt</b> | <b>Expenditure</b> | <b>Closing Balance</b> |
|-------------------------|-------------------|------------------------|--------------------------------|----------------------|--------------------|------------------------|
| Zilla Parishad          | 5                 | 4.88                   | 36.73                          | 41.61                | 29.61              | 12.00                  |
| Panchayat Samiti        | 50                | 157.33                 | 210.70                         | 368.03               | 187.16             | 180.87                 |
| Gram Panchayat          | 100               | 8.10                   | 15.16                          | 23.26                | 15.34              | 7.92                   |
| <b>Total</b>            | <b>155</b>        | <b>170.31</b>          | <b>262.59</b>                  | <b>432.90</b>        | <b>232.11</b>      | <b>200.79</b>          |

The un-utilized amount of Rs 200.79 crore at the end of March 2008 indicated poor utilization of funds which was due to lack of appropriate planning and delays in execution of schemes/programmes by the PRIs through regular monitoring and evaluation. This resulted in non-achievement of the objective of the schemes and non-fulfillment of the felt needs of the people through developmental works.

### **1.12.2 Non-reconciliation of cash balances**

In order to ensure accuracy of accounts, Government of Orissa, Panchayati Raj Department issued instruction (April 1999) for reconciliation of balances kept in the banks as per the cash book with that of the actual bank balance as per the bank pass books at the end of each month.

Test check of 14 PSs revealed that there was a difference of Rs 7.65 crore between bank balances as per cash books and balances as per bank pass books as on March 2008 as detailed below.

**(Rupees in lakh)**

| <b>Sl No</b> | <b>Name of the PSs</b> | <b>Balance as per pass book</b> | <b>Balance as per cash book</b> | <b>Discrepancies</b> |
|--------------|------------------------|---------------------------------|---------------------------------|----------------------|
| 1            | Sinapali               | 461.51                          | 431.11                          | 30.40                |
| 2            | Chandahandi            | 428.45                          | 362.89                          | 65.56                |
| 3            | Morada                 | 259.67                          | 209.25                          | 50.42                |
| 4            | Bansapal               | 497.68                          | 496.67                          | 1.01                 |
| 5            | Lamtaput               | 253.55                          | 224.44                          | 29.11                |
| 6            | Gudari                 | 256.55                          | 189.68                          | 66.87                |
| 7            | Sonpur                 | 349.05                          | 248.03                          | 101.02               |
| 8            | G.Udayagiri            | 189.35                          | 171.62                          | 17.73                |
| 9            | Bargaon                | 375.79                          | 137.55                          | 238.24               |
| 10           | Bisra                  | 310.28                          | 258.64                          | 51.64                |
| 11           | Laikera                | 384.83                          | 377.24                          | 7.59                 |
| 12           | Narla                  | 275.61                          | 239.32                          | 36.29                |
| 13           | Ghatagaon              | 177.01                          | 162.37                          | 14.64                |
| 14           | Khunta                 | 287.03                          | 232.33                          | 54.70                |
| <b>Total</b> |                        | <b>4506.36</b>                  | <b>3741.14</b>                  | <b>765.22</b>        |

Due to non- reconciliation of the discrepancies, the cash book did not reflect a true and fair picture of the state of accounts of the local bodies.

### 1.12.3 Non production of vouchers

During test check of records in seven \*\* PSs, vouchers in support of expenditure of Rs.2.82 crore as detailed below were not produced to audit for verification. In the absence of the supporting vouchers, the genuineness of the expenditure could not be ensured. The concerned PS could not furnish any reason for non-production of the vouchers in support of the transactions.

#### Statement showing non-production of vouchers to Audit

(Rupees in Lakh)

| Sl.No. | Name of the Panchayat Samitis | Amount        |
|--------|-------------------------------|---------------|
| 1      | Sinapali PS                   | 3.30          |
| 2      | Boriguma PS                   | 4.82          |
| 3      | Jagannathprasad PS            | 2.70          |
| 4      | Borden PS                     | 48.20         |
| 5      | Kesinga PS                    | 1.35          |
| 6      | Chhendipada PS                | 220.55        |
| 7      | Bisra PS                      | 1.05          |
|        | <b>Total:</b>                 | <b>281.97</b> |

### 1.12.4 Deficiencies in the maintenance of Cash Books

Audit of cash books of test checked PRIs revealed the following deficiencies in maintenance of cash book in spite of repeated audit objections:

- Periodical as well as surprise physical verification of cash was not conducted.
- Heavy cash balances in excess of the prescribed limits of Rs.10000/- and not required for immediate purposes were kept in hand.
- A consolidated Cash Book showing the overall receipt and disbursement of cash of PS was not maintained despite operation of more than one cash book.
- Monthly analysis of closing cash balances was not made.

\*\* Sinapali, Boriguma, Jagannathprasad, Borden, Kesinga, Chhendipada, Bisra

- Expenditures were booked under items of works for which no budget provision existed.
- Interest earned in the Bank Pass Book was not regularly accounted for in the Cash Book.
- There was huge difference in the opening balance and closing balance between the manual cash book and Project Accounting and Monitoring Information System (PAMIS) cash book.

#### **1.12.5 Non-Preparation of Database**

Though EFC had provided Rs 4.47 crore to the State Government for creation of database of the finances of the PRIs at the village, district and state level, no database had been created for capturing the details of the finances of the PRIs.

Twelfth Finance Commission (TFC) emphasized the need for creation of database for enabling rational determination of gap between the cost of service delivery and capacity to raise resources as well as proper maintenance of accounts at grass root level through use of modern technologies and management system. Though Rs 2.86 crore was allotted out of TFC grants for payment of remuneration of Computer Programmers, no database was created so far.

#### **1.13 Recommendations**

- Annual Accounts should be prepared by the PRIs regularly and timely in prescribed formats.
- Database on finances should be maintained at all levels of PRIs.
- Budget Estimates in respect of GPs and PSs should be prepared and placed before the Grama Sabha and Panchayat Samiti respectively for its consideration and approval.

- District Planning Committee should be strengthened by providing secretariat, technical and inspection staff for discharging their function in the spirit of provisions contained in the Constitution and the Act enacted.
- Scheme funds should be utilized timely by the PRIs.