

CHAPTER IV

AN OVERVIEW OF THE ACCOUNTS AND FINANCES OF PANCHAYAT RAJ INSTITUTIONS

Highlights

Though all the 29 functions listed for devolution to Panchayat Raj Institutions were reported as transferred, Government had not transferred the functionaries required for carrying out these functions.

Twelfth Finance Commission grants were released by Government to the Panchayat Raj Institutions with delays ranging between eight days and 183 days during 2006-07. Interest of Rs 2.64 lakh relating to 197 Panchayat Raj Institutions for the delayed release was not paid by the State Government.

9,565 paragraphs of inspection reports issued by Director of Local Fund Audit relating to Panchayat Unions prior to 2002-03 were pending settlement as of March 2008.

Despite directions of the Public Accounts Committee for furnishing prompt replies to the pending recommendations, 240 recommendations of 10 Audit Reports relating to Rural Development and Panchayat Raj Department for the period 1982-83 to 1996-97 (upto which the discussion was completed) were pending final settlement for want of required particulars from the department.

4.1 Introduction

4.1.1 In the first few years after independence, community development programmes were implemented in the State through a three tier system of Panchayat Raj Institutions (PRIs) viz., panchayats, community development blocks and district boards. While panchayats and blocks were responsible for implementation of programmes, the district boards were in-charge of administration. Subsequently, a two tier system of panchayat administration viz., panchayats at village level and Panchayat Unions at block level was introduced in the State by the Panchayats Act, 1958 and the district boards were abolished.

4.1.2 To promote greater autonomy at the grass root level and to involve people in identification and implementation of developmental programmes involving gram sabhas, the Seventy Third Constitutional Amendment Act, 1992 was promulgated (April 1993). Consequently, the Tamil Nadu Panchayats Act, 1994 was enacted which came into effect from 22 April 1994. Under this Act a three tier system of Panchayat Raj Institutions (PRIs) viz., Village Panchayats at the village level, Panchayat Unions or block panchayats at the intermediary level and District Panchayats at the apex level were established. There were 12,618 Village Panchayats, 385 Panchayat Unions

and 30 District Panchayats in the State as of March 2008. An organogram of Panchayat Raj Institutions is given in **Appendix 4.1**.

The population of Village Panchayats as per 2001 census in the State varies widely, as shown in **Table 4.1**.

Table 4.1: Number of Village Panchayats – Population-wise

Population of Village Panchayat	Number of Village Panchayats
Upto 500	66
Between 501-1,000	1,177
Between 1,001-3,000	7,241
Between 3,001-5,000	2,569
Between 5,001-10,000	1,379
Above 10,000	186
Total	12,618

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2008-09)

Consequent to the provision of required funds through direct funding/devolution, the average income level of Village Panchayats had increased during 2007-08. The breakup details of Village Panchayats based on their income during 2007-08 are given in **Table 4.2**.

Table 4.2: Income-wise classification of Village Panchayats

Sl. No.	Income range per annum	Number of Village Panchayats	
		Based on average income of three years from 2003 -04 to 2005-06	Based on the income of 2007-08
1	Upto Rs 50,000	10	Nil
2	Between Rs 50,000 and Rs one lakh	178	Nil
3	Between Rs one lakh and Rs five lakh	7,422	1,059
4	Between Rs five lakh and Rs 10 lakh	3,181	7,283
5	Between Rs 10 lakh and Rs 25 lakh	1,489	3,733
6	Between Rs 25 lakh and Rs 50 lakh	252	442
7	Between Rs 50 lakh and Rs one crore	60	78
8	Between Rs one crore and Rs 3 crore	24	23
9	Above Rs 3 crore	2	Nil
	Total	12,618	12,618

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2007-08 and 2008-09)

Elections were held to the local bodies in October 2006.

4.2 Administrative arrangements

4.2.1 The administrative control of the PRIs vests with the Principal Secretary to Government, Rural Development and Panchayat Raj Department. The responsibility for implementation of rural development programmes through PRIs is vested with the Director of Rural Development and Panchayat Raj (DRDPR).

4.2.2 District Rural Development Agency (DRDA), a society registered under Societies Registration Act, 1860 monitors all the schemes implemented by PRIs in the district. The DRDA is headed by the District Collector who is assisted by a Project Officer/Additional Collector.

4.2.3 The executive authority for the District Panchayats is the Secretary at the level of Assistant Director of Rural Development and its Chairman is an elected representative.

4.2.4 In the case of Panchayat Unions, the Block Development Officer (BDO) (Block Panchayat), who is also the Commissioner of the Panchayat Union Council, is the executive authority and the Chairman is an elected representative. Another BDO (Village Panchayats) is responsible for the implementation of the schemes by the Village Panchayats. In case of Village Panchayats, the President, an elected representative, is the executive authority.

4.3 Accounts and Audit

4.3.1 Accounts and database formats

4.3.1.1 State Government issued orders (April 2004) to adopt the accounts format prescribed by the Comptroller and Auditor General of India with effect from 1 April 2004 in all Panchayat Raj Institutions. The Commissioner of Rural Development and Panchayat Raj had also been directed by Government to create the database in Panchayat Raj Institutions in consultation with National Informatics Centre (NIC) which would develop software for adoption of the formats.

4.3.1.2 Both the Commissioner, Rural Development and Panchayat Raj (RDPR) Department and the Government suggested further additions and modifications to the approved accounts formats relating to Village Panchayats and Panchayat Unions. The final version of the accounts formats was forwarded (April 2006) by Government to the Principal Accountant General (Civil Audit) who conveyed his approval in May 2006 to the Government with a request to issue final orders for adoption of the revised formats and commence its implementation.

Government of India released Rs 60.73 crore¹ during 2003-06 for maintenance of accounts and database. Government of Tamil Nadu also issued orders during the above period for the purchase of computers and for training the

¹ Rupees 36.34 crore and Rs 24.39 crore as per the recommendations of Eleventh and Twelfth Finance Commission respectively.

qualified personnel on maintenance of accounts and database. Together with the earmarked matching grants of Panchayat Raj Institutions to the tune of Rs 9.08 crore, the total available funds for the purpose worked out to Rs 69.81 crore. Of this Rs 60.32 crore was released to Tamil Nadu Electronic Corporation, the agency fixed for supply of computers by Government and 13,074 computers costing Rs 51.64 crore were purchased. The computers were also distributed among the PRIs.

The matter was referred to Government in January 2009. The Government replied in May 2009 that though a software for the management information system in the Village Panchayats called Panchayat Raj Institutions Accounts Software (PRIA) was developed by NIC, it could not be used due to the change of accounting system of Village Panchayats as per Government order issued in August 2007. Government further stated that data pertaining to Village Panchayats account and National Rural Employment Guarantee Scheme (NREGS) implemented in the State were not incorporated in the software developed by NIC and it could not be utilised in the Village Panchayats and the computers were now being used for entering and updating of Village Panchayat-wise data for NREGS.

The reply is not tenable as no software was hosted in the system so far (June 2009). As such the intended purpose was not achieved despite incurring Rs 51.64 crore.

4.3.2 Accounts maintained in Panchayat Raj Institutions

Details of various accounts maintained by PRIs are discussed below:

(a) Village Panchayats

Village Panchayats are required to maintain four accounts viz.,

- (i) Village Panchayat Fund Account
- (ii) Village Panchayat Earmarked Fund Account
- (iii) Village Panchayat Scheme Fund Account
- (iv) Village Panchayat Drinking Water Account

The cash balances of the above accounts are maintained in Co-operative Banks, Regional Rural Banks, Post Office Savings Banks and Nationalised Banks and operated jointly by the President and Vice President of the Village Panchayat.

Rationalisation of Village Panchayat accounts

Village Panchayats were empowered, through orders issued earlier in March 1997 for rationalisation of their accounts, with the operation of various accounts free from pre-scrutiny by block officials. Several instances regarding the utilisation of Central/State Finance Commission grants for less important purposes came to the notice of Government. Further, many cases wherein Village Panchayat Presidents and Vice Presidents issued cheques for

schemes without measurement and check measurement of works and without bills being passed by the Block Development Officers (Village Panchayats) concerned were also reported. Hence Government issued (August 2007) orders for further rationalising the Village Panchayat accounts and streamlining the procedures for operation of the accounts so as to empower the Village Panchayat Presidents to pay the dues of Tamil Nadu Electricity Board from the funds at their disposal and at the same time prevent them diverting these funds for less important purposes and prevent unauthorised drawal of money from scheme funds/NREGS fund accounts without authorisation of BDOs concerned and prescribed the following three accounts which are to be maintained by the Village Panchayats along with the mode of maintenance and operation and the nature of receipts/expenditure to be included in each of these accounts.

➤ Village Panchayat Fund Account

(Village Panchayat Water Supply Account presently maintained as Account No. IV was ordered to be closed and the balance amount available in the account ordered to be taken to Village Panchayat Account)

➤ Village Panchayat payments to TNEB and/or TWAD Board Account

➤ Village Panchayat Scheme Fund Account

➤ In Village Panchayats where NREGS is being implemented, a fourth account, Village Panchayats - NREGS Account would also be operated.

(b) Panchayat Unions

Panchayat Unions are required to maintain four accounts, viz.,

(i) General Fund Account

(ii) Education Fund Account

(iii) Nutritious Meal Fund Account

(iv) Scheme Account

Besides the above, two more accounts are also maintained according to necessity viz.,

➤ Village Panchayat Consolidated Fund Account

➤ NABARD (10 per cent) Account

The above accounts are operated through the Treasury and amounts released through the State budget are deposited in them. The amounts received directly from Government of India for certain schemes are deposited in Banks, as required under the orders issued.

(c) District Panchayats

The main source of finance for the District Panchayats are State and Central Government grants. After meeting expenditure on staff and contingencies, the District Panchayats can take up works with the remaining funds. The District Panchayats are required to maintain two accounts, viz.,

- (i) General Fund Account
- (ii) Scheme Fund Account

The funds received by District Panchayats are kept in banks, irrespective of the purpose for which received.

A chart showing the funds flow to PRIs is given in **Appendix 4.2**.

4.3.3 Audit arrangements

4.3.3.1 In accordance with Section 193 of Tamil Nadu Panchayats Act, 1994 Government of Tamil Nadu appointed the following officers as Auditors for PRIs as given in **Table 4.3**.

Table 4.3: Audit arrangements for PRIs

Tier of PRI	Auditors appointed	Periodicity
District Panchayat	Director of Local Fund Audit (DLFA)	Annually
Panchayat Union	DLFA	Quarterly
Village Panchayat	(i) Deputy Block Development Officer (DBDO) except audit of scheme accounts	Quarterly
	(ii) Assistant Director of Rural Development (Audit) except audit of scheme accounts	Quarterly
	(iii) DLFA for audit of scheme accounts	Annually (test check)

4.3.3.2 Accounts of District Panchayats and Panchayat Unions are also audited by Principal Accountant General (Civil Audit) under Section 14(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Further technical guidance is also provided by the Principal Accountant General to DLFA regarding audit of District Panchayats and Panchayat Unions in terms of order of Government of Tamil Nadu (March 2003).

4.3.4 Compilation of Annual Accounts by PRIs and Audit of PRIs

DLFA is the statutory Auditor for Panchayat Unions and District Panchayats. Based on the recommendation of Second State Finance Commission (SSFC), DLFA is conducting only test audit of Village Panchayats.

4.3.4.1 Compilation of Annual Accounts and submission of Accounts by PRIs

The position relating to compilation of Annual Accounts and submission of accounts by PRIs, as of November 2008, as reported by the DLFA (January 2009) revealed that all the Panchayat Unions and District Panchayats have

compiled and submitted their Annual accounts upto 2006-07 and 60 Panchayat Unions and 10 District Panchayats had not submitted their accounts for 2007-08.

4.3.4.2 Audit of PRIs by DLFA

(a) While the audit of two Panchayat Unions for 2006-07 were yet to be conducted, the audit of 10 District Panchayats and 361 Panchayat Unions for the year 2007-08 was pending, as of November 2008, as reported (January 2009) by DLFA.

(b) The regular audit of Village Panchayats was conducted by the Deputy Block Development Officers and 22 *per cent*² of the total number of Village Panchayats has to be test checked by the DLFA annually as per Government orders of November 2002. The position of audit of Village Panchayats, as of November 2008, as reported (January 2009) by DLFA, is given in **Table 4.4**.

Table 4.4: Position of audit of Village Panchayats as of November 2008

Category of PRI	Total number to be audited	Number of Village Panchayats wherein Audit not completed for		
		2005-06	2006-07	2007-08
Village Panchayats	2,523	1,587	307	2,523

No specific reasons were furnished by DLFA for the pendency.

4.3.4.3 The number of paragraphs included in the Inspection Reports (IRs) of DLFA issued up to 2006-07, pending settlement as of March 2008 in respect of Panchayat Unions and District Panchayats, aggregated to 21,042 and 614 respectively. The reported (October 2008) position of year-wise pendency by DLFA was as given in **Table 4.5**.

Table 4.5: Year-wise pendency details of paragraphs in the IRs of DLFA

Year of IR	Number of paragraphs pending in respect of	
	Panchayat Unions	District Panchayats
Up to 2001-2002	9,565	-
2002-2003	432	70 (upto 2002-03)
2003-2004	805	26
2004-2005	1,837	36
2005-2006	3,439	96
2006-2007	4,964	386
Total	21,042	614

Of the pending 21,042 paras relating to Panchayat Unions, 9,565 paras pertain to period prior to 2002-03.

² Including two *per cent* of Village Panchayats based on receipts, value of works and on specific complaints forwarded by Director of Rural Development.

4.3.4.4 Audit of PRIs by Principal Accountant General (Civil Audit)

Important irregularities detected by Audit during local audit of PRIs through test check of records are followed up through Inspection Reports issued to the Commissioner, RDPR with copies to the audited PRIs. Government had issued general orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities for all such paragraphs included in the inspection reports issued by Audit.

As of March 2009, 1,890 paragraphs relating to 338 Inspection Reports were not settled for want of satisfactory replies, as indicated below:

Year	Number of	
	Inspection Reports	Paragraphs
2006-07	77	241
2007-08	148	753
2008-09	113	896
Total	338	1,890

4.4 Status of devolution of functions, functionaries and funds

4.4.1 Tamil Nadu Panchayats Act, 1994 prescribes various powers and functions to Village Panchayats and Panchayat Unions under Sections 110, 111 and 112.

4.4.2 Though the State Government reported that all 29 functions (**Appendix 4.3**) listed in the Eleventh Schedule of the Constitution of India have been transferred to the PRIs, a study conducted by World Bank in 2006 titled India Rural Government and Service Delivery stated that none of the functionaries relating to the 29 functions had actually been transferred. The Commissioner, RDPR stated that though the State Government had given powers and functions to the PRIs to match the implementation capacity and financial devolution, the decentralisation and delegation of power was a dynamic and continuous process.

4.4.3 In continuance of its commitment to devolve greater powers and responsibilities to PRIs and Urban Local Bodies and based on the announcement made in the Legislative Assembly on 11 August 2006, State Government ordered (January 2007) the constitution of the Third High Level Committee with the Minister for Rural Development as the Chairman along with select District Panchayat Chairpersons, Panchayat Union Chairpersons and Village Panchayat Presidents besides certain subject experts as members. The committee was required to study the duties, functions and powers already entrusted to the PRIs and Urban Local Bodies and make recommendations for further devolution of the same in order to make them more effective.

The committee presented its report to Government in December 2007 and submitted a total of 99 recommendations, categorised under 39 subjects. Government had issued orders on 52 recommendations and the remaining are under the perusal of Government. Some of the important recommendations accepted by Government are given in **Appendix 4.4**.

4.4.4 Third State Finance Commission

The Third State Finance Commission constituted in December 2004 submitted its report with recommendations in September 2006. The report of the commission together with the explanations memorandum on the action taken on the recommendations was laid on the table of the Legislative Assembly in May 2007.

The position of action taken on the recommendations of the Third State Finance Commission has already been mentioned in Paragraph 1.6 under Chapter I of this report.

Some of the main recommendations of the commission accepted by Government and orders issued (May 2007) are detailed in **Appendix 4.5**.

Government orders on the decision taken on the other recommendations of the Third State Finance Commission as given in the Action Taken Report will be issued separately by the respective departments in consultation with Finance Department.

4.5 Receipt and expenditure of Panchayat Raj Institutions

4.5.1 The resources base of the PRIs in addition to their own tax/non-tax revenues consists of the following:

- (i) Devolution of funds by State Government based on the recommendations of the State Finance Commission;
- (ii) Assigned/shared revenues; and
- (iii) Funds provided based on the recommendations of Central Finance Commission.

The details of receipts of PRIs during the last three years, as reported by Director of Rural Development and Panchayat Raj (DRDPR), in December 2008, are given in the **Table 4.6**. However, the accuracy of these figures could not be authenticated in the absence of data compiled from the audited accounts of PRIs by the department/Government.

Table 4.6: Receipts of PRIs

(Rupees in crore)

Category of PRI	Year	Own Revenue	Assigned Revenue	Grants	Loans	Total
Village Panchayats	2005-06	158.83	198.77	1,054.42	-	1,412.02
	2006-07	173.30	209.43	1,264.29	-	1,647.02
	2007-08	237.67	144.11	1,124.15	-	1,505.93
Panchayat Unions	2005-06	81.31	8.75	899.88	-	989.94
	2006-07	96.49	18.48	972.23	-	1,087.20
	2007-08	70.13	58.93	506.75	-	635.81
District Panchayats*	2005-06	-	-	127.12	-	127.12
	2006-07	-	-	185.78	-	185.78
	2007-08	-	14.40	126.69	-	141.09

* The receipts of District Panchayats consists of grants only.

The total receipts of all the three tiers of PRIs after increasing during 2006-07, declined in 2007-08. Comments on the decreased receipts during 2007-08 are included under relevant components of receipts.

Details of grants other than State and Central Finance Commission grants and loans received during 2007-08 were not furnished by the Director of Rural Development and Panchayat Raj.

4.5.2 The details of expenditure of all the three tiers of PRIs during the last three years 2005-06 to 2007-08, as reported (December 2008) by DRDPR duly incorporating the expenditure incurred out of State and Central Finance Commission grants, are given in **Table 4.7**.

Table 4.7: Expenditure of PRIs

(Rupees in crore)

Category of PRI	Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
Village Panchayats	2005-06	967.19	311.40	1,278.59
	2006-07	1,107.57	315.57	1,423.14
	2007-08	1,350.07	349.24	1,699.31
Panchayat Unions	2005-06	679.28	250.30	929.58
	2006-07	733.09	252.64	985.73
	2007-08	719.05	277.73	996.78
District Panchayats	2005-06	76.45	58.31	134.76
	2006-07	103.46	65.72	169.18
	2007-08	132.15	47.72	179.87

4.5.3 It would be seen that there was a steady increase in both the capital and revenue expenditure of all the three tiers over the period 2005-08 except the revenue expenditure in Panchayat Unions and capital expenditure in District Panchayats during 2007-08, which were declined.

4.5.4 The component-wise details of receipts and expenditure for the years 2005-08 as reported by DRDPR are given in the succeeding paragraphs.

4.6 Receipt of Panchayat Raj Institutions

4.6.1 Source of receipts

Among the three tiers, Village Panchayats alone have the power to levy taxes. The other source of receipts for Village Panchayats and Panchayat Unions are non-tax revenue, assigned revenue from State Government and grants given by State Government for various purposes and State and Central Finance Commissions.

4.6.2 Tax revenue

The main components of tax revenue in Village Panchayats are House Tax, Profession Tax and Advertisement Tax. The position of cumulative demand (including arrears), collection and balance of these taxes during 2005-08 by the Village Panchayats is given in **Table 4.8**.

Table 4.8: Tax revenue of Village Panchayats

(Rupees in crore)

Year	House Tax			Profession Tax			Advertisement Tax		
	D	C	B	D	C	B	D	C	B
2005-06	67.10	61.15(91)	5.95	32.40	31.34 (97)	1.06	0.17	0.17(100)	Nil
2006-07	73.88	63.69(86)	10.19	36.45	35.34(97)	1.11	0.48	0.47(98)	0.01
2007-08	80.72	76.69(95)	4.03	40.54	39.58(98)	0.96	0.38	0.27(71)	0.11

(D: Demand, C: Collection, B: Balance)

(Figures in brackets indicate percentage of collection to demand)

While the percentage of collection of Profession Tax was satisfactory, the percentage of collection of House Tax in Village Panchayats after declining from 91 during 2005-06 to 86 in 2006-07, increased to 95 per cent in 2007-08. Advertisement tax decreased from cent per cent in 2005-06 to 71 per cent in 2007-08.

4.6.3 Non-tax revenue

Some of the major sources of non-tax revenues of Village Panchayats are water charges, building licence fees, fees for approval of layouts, dangerous and offensive (D&O) trade licence fees, receipts from fairs and festivals, plantation lease amount, shandy lease amount and fishery rentals besides interest receipts.

The main non-tax revenue of Panchayat Unions is receipts from remunerative enterprises, fairs and festivals, ferries operation, choultries, marriage halls, markets, fishery rentals and fines and penalties besides interest receipts.

The total amount of non-tax revenue realised year-wise by PRIs during 2005-08 are given in **Table 4.9**. However, no break-up details of various kinds of non-tax revenues realised were furnished by DRDPR.

Table 4.9: Non-tax revenue of PRIs

(Rupees in crore)

Category of PRI	Year	Non-tax revenue realised
Panchayat Unions	2005-06	81.31
	2006-07	96.49
	2007-08	70.13
Village Panchayats	2005-06	66.17
	2006-07	73.81
	2007-08	121.13

While non-tax revenue actually realised by Panchayat Unions after increasing from Rs 81.31 crore in 2005-06 to Rs 96.49 crore in 2006-07 declined to Rs 70.13 crore in 2007-08. In respect of Village Panchayats, it was on the increasing trend during 2005-08 as the same steeply increased to Rs 121.13 crore during 2007-08 from Rs 73.81 crore in 2006-07.

4.6.4 Assigned revenue

This includes the class of taxes and levies traditionally collected by Government and assigned to the PRIs by the District Collectors. SSFC considered the assigned revenue as part of the resource base of the PRIs and desired that the base needed to be maintained.

Entertainment Tax (ET), Surcharge on Stamp Duty (SSD), Local Cess (LC), Local Cess Surcharge (LCS), Seigniorage Fee (SF), lease amount of mines and minerals, cable TV fees etc. are some of the revenues assigned by Government to Panchayat Unions and Village Panchayats.

As the system of adjusting assigned revenues to various PRIs through adjustments leads to considerable delay in transferring the funds, Government issued (October 2007) orders, with a view to ensure quick transfer, to pool all the assigned revenues at State level and apportion the same to PRIs.

The quantum of such revenue assigned to these PRIs during 2005-08 are given in **Table 4.10**.

Table 4.10: Assigned revenue to PRIs

(Rupees in crore)

Category of PRI	Year	Local Cess	Local Cess Surcharge	Entertainment Tax	Surcharge on Stamp-Duty	Seigniorage Fee	Other assigned revenues*	Total
Panchayat Unions	2005-06	ND	6.41	0.99	ND	1.35	-	8.75
	2006-07	ND	15.63	0.84	ND	2.01	-	18.48
	2007-08	ND	8.15	0.53	48.92	1.33	-	58.93
Village Panchayats	2005-06	2.15	ND	1.74	144.77	27.08	23.03	198.77
	2006-07	3.30	ND	0.94	148.36	25.27	31.56	209.43
	2007-08	15.28	ND	1.00	91.72	23.61	12.50	144.11
District Panchayats	2007-08	2.04	ND	0.13	12.23	ND	ND	14.40

ND – assigned revenue not due.

(* consist of 2 C tree patta fees, lease amount from mines and minerals and cable TV fees)

The Local Cess assigned to Village Panchayats after a slight increase in 2006-07 to Rs 3.30 crore, steeply increased to Rs 15.28 crore in 2007-08. The local cess surcharge assigned to Panchayat Unions steeply increased during 2006-07 and then again declined during 2007-08. The ET to both Panchayat Unions and Village Panchayats was on the declining trend during 2005-08. While the SSD assigned to Village Panchayats after a slight increase in 2006-07, declined steeply in 2007-08, the SF assigned to Village Panchayats was declining during the period 2005-08.

4.6.5 Grants received by PRIs

The details of State Finance Commission (SFC) grants and Central Finance Commission grants received by the PRIs during 2005-08 are given in succeeding paragraphs.

4.6.5.1 State Finance Commission grants

The details of SFC grants devolved to Panchayat Raj Institutions during 2005-08 are given in **Table 4.11**.

Table 4.11: State Finance Commission grants to PRIs

(Rupees in crore)

Category of PRI	Year	SFC grants sanctioned	Deductions made	Net grants released
Panchayat Unions	2005-06	426.25	30.75	395.50
	2006-07	432.03	37.14	394.89
	2007-08	506.75	161.31	345.44
Village Panchayats	2005-06	499.27	Nil	499.27
	2006-07	500.81	Nil	500.81
	2007-08	950.15	1.80	948.35
District Panchayats	2005-06	69.23	Nil	69.23
	2006-07	85.24	Nil	85.24
	2007-08	126.69	27.24	99.45

The Commissioner, RDPR reported (December 2008) that deductions were made from the SFC grants given to Panchayat Unions during 2005-08 and to Village Panchayats and District Panchayats during 2007-08 towards pension contribution, training corpus fund and Panchayat Union school renovation programme.

The Commissioner, RDPR also stated that the SFC grant being an untied grant, they are credited into the LF Account I of the concerned PRI and spent. As such the quantum of unutilised SFC grants could not be furnished.

4.6.5.2 Twelfth Central Finance Commission grants

(a) A total sum of Rs 870 crore has been allotted to PRIs of the State by the TFC during the period from 2005-06 to 2009-10. The break-up details of TFC during 2005-08 are shown in **Table 4.12**.

Table 4.12: TFC grants to PRIs

(Rupees in crore)

Category of PRI	Grants released by TFC		
	2005-06	2006-07	2007-08
District Panchayats	(No grants given to District Panchayats)		
Panchayat Unions	34.80	17.40	Nil
Village Panchayats	139.20	156.60	174.00

The grant is to be utilised entirely towards the operation and maintenance costs of water supply, street lighting and sanitation. The entire TFC grants were released only to Village Panchayats from the second instalment of 2006-07.

(b) A test check of records relating to 21 Panchayat Unions and 195 Village Panchayats revealed that an amount of Rs 3.51 crore remained unutilised out of TFC grants received from GOI as of 31 March 2008, as shown in **Table 4.13**.

Table 4.13 Unutilised Twelfth Finance Commission grants

(Rupees in crore)

Category of PRI	Number of local bodies	Year	Total release	Unutilised amount
Panchayat Unions	21	2005-06	1.50	0.35
	21	2006-07	0.82	0.69
Village Panchayats	170	2005-06	2.40	0.44
	182	2006-07	1.94	0.83
	195	2007-08	2.34	1.20
Total			9.00	3.51

This was despite the report of the Directorate of Rural Development and Panchayat Raj to the effect that the TFC grants released during 2005-06 and 2006-07 were utilised cent *per cent*.

(c) According to para 6.1 of the guidelines issued by GOI regarding TFC grants, State have to mandatorily transfer the grants released by GOI to the Panchayat Raj Institutions within 15 days of their date of credit to State Government account. In case of delayed transfer, State Government should also provide interest for the period of delay at the rate equal to the interest rate of Reserve Bank of India.

A test check of connected records revealed that TFC grants were released during 2006-07 to Panchayat Raj Institutions belatedly with delays ranging between eight days and 183 days as indicated in **Table 4.14**. No interest was, however, paid by the State Government for the delay.

Table 4.14: Period of delay in release of TFC grants during 2006-07

Category of PRI	Period of delay in release (Delay beyond 15 days from the due date)	
	First instalment	Second instalment
Panchayat Unions	26 to 124 days (21 Panchayat Unions)	Not released (21 Panchayat Unions)
Village Panchayats	8 to 183 days (176 Village Panchayats)	9 to 179 days (176 Village Panchayats)

Amount of interest thus not paid by the State Government for belated release of TFC grants during 2006-07, compiled from the details relating to 21 Panchayat Unions and 176 Village Panchayats worked out (at the rate of 6 *per cent*) to Rs 2.64 lakh as shown in **Table 4.15**.

Table 4.15: Interest due for the belated release of TFC grants during 2006-07

(Rupees in lakh)

Category of PRI	Number of PRIs	Amount of interest due for the belated release of		Total
		First instalment	Second instalment	
Panchayat Unions	21	0.76	Nil	0.76
Village Panchayats	176	0.95	0.93	1.88
Total	197	1.71	0.93	2.64

Government replied (June 2009) that the first and second instalments of Twelfth Finance Commission Grants were released in November 2006 and March 2007 respectively by the DRDPR before the due date without delay.

The reply is not correct as the actual date of receipt of grant in the concerned Panchayat Raj Institution is the criterion and not the date of the proceedings of the DRDPR.

d) Unutilised grants of Government of India

Out of Rs 60.32 crore given to ELCOT for the supply of computers during 2003-06, Rs 51.64 crore was only incurred on purchase of 13,074 computers. The remaining unspent amount of Rs 8.68 crore³, refunded (November 2007) by ELCOT to the Commissioner, RDPR was kept in a saving bank account. No action was taken either to utilise this amount or to refund it to Government of India (November 2008).

As Rs 60.44 crore⁴ alone was released out of Rs 69.81 crore available for this purpose, as mentioned in Paragraph 4.3.1.2, Rs 9.37 crore were not released but retained by the DRDPR.

Further, out of Rs 11.89 lakh given to six training institutes⁵ for training of the functionaries and officials of PRIs on maintenance of accounts and data base, Rs 7.69 lakh alone was spent for training 1,843 officials⁶. The unutilised amount of Rs 4.20 lakh was still retained by four training institutes⁷.

4.6.6 Other grants

Apart from the Finance Commission grants, other grants received by PRIs during 2005-07 are given in **Table 4.16**.

Table 4.16: Other grants to PRIs

(Rupees in crore)

Category of PRI	2005-06	2006-07
Village Panchayats	415.95	606.88
Panchayat Unions	438.83	522.80
District Panchayats	57.89	100.54
Total	912.67	1,230.22

Details of grants other than State and Central Finance Commission grants and their utilisation during 2007-08 were not furnished by the DRDPR.

³ Out of unutilised grants, Rs 4.91 crore related to EFC grants and Rs 3.77 crore related to TFC grants.

⁴ Purchase of computers : Rs 60.32 crore and Training : Rs 0.12 crore.

⁵ SV Nagaram : Rs 2.14 lakh, Pattukottai : Rs 2.46 lakh, Bhavanisagar : Rs 1.53 lakh, Krishnagiri : Rs 1.97 lakh, T.Kallupatti : Rs 2.23 lakh and State Institute of Rural Development at Maraimalai Nagar : Rs 1.56 lakh.

⁶ Panchayat Presidents: 283, Panchayat Assistants: 1,002, Block Staff: 485 and District Staff: 73.

⁷ SV Nagaram : Rs 0.09 lakh, Pattukottai : Rs 2.09 lakh, T.Kallupatti : Rs 1.75 lakh and State Institute of Rural Development at Maraimalai Nagar : Rs 0.27 lakh.

4.7 Expenditure of Panchayat Raj Institutions

4.7.1 Revenue expenditure

Revenue expenditure consists of salaries and pensions, expenditure on repairs and maintenance and administration.

The details of revenue expenditure incurred by PRIs during the last three years *viz.*, 2005-06 to 2007-08 are given in **Table 4.17**.

Table 4.17: Revenue expenditure of PRIs

(Rupees in crore)

Category of PRI	Revenue expenditure					
	Year	Salaries	Pension payment	Total of salaries and pension payment	Other revenue expenditure (including SSFC grants utilised)	Total
Village Panchayats	2005-06	59.91	0.26	60.17	907.02	967.19 (24)
	2006-07	54.73	38.64	93.37	1,014.20	1,107.57 (15)
	2007-08	53.71	2.19	55.90	1,294.47	1,350.37 (22)
Panchayat Unions	2005-06	66.99	0.91	67.90	611.38	679.28 (4)
	2006-07	62.22	21.41	83.63	649.46	733.09 (8)
	2007-08	67.04	0.21	67.25	651.80	719.05 ((-) 2)
District Panchayats	2005-06	1.84	0.04	1.88	74.57	76.45 (9)
	2006-07	3.33	2.20	5.53	97.93	103.46 (35)
	2007-08	1.59	0.08	1.67	130.51	132.18 (28)

(Figures in brackets under total column indicate the percentage of growth over previous year)

The Commissioner, RDPR stated (February 2009) that the decline in salary expenditure during 2006-07 in Village Panchayats was due to vacancies and increase in pension payment was due to the expenditure of local bodies including TA bill, pension and other allowances.

During the above period, both Village Panchayats and District Panchayats recorded an increasing trend in revenue expenditure with the percentage of increase ranging from 15 to 24 and 9 to 35 respectively. However Panchayat Unions after recording an increase of eight *per cent* of revenue expenditure during 2006-07 as compared to 2005-06 figures, a slight decrease of two *per cent* was recorded in 2007-08 as compared to 2006-07 figures.

4.8 Capital expenditure

Quantum of reported capital expenditure (December 2008) as incurred by PRIs during 2005-08 are given in **Table 4.18**.

Table 4.18: Capital expenditure of PRIs

(Rupees in crore)

Category of PRI	2005-06	2006-07	2007-08
Village Panchayats	311.40	315.57	349.24
Panchayat Union	250.30	252.64	277.73
District Panchayats	58.31	65.72	47.72
Total	620.01	633.93	674.69

While, the capital expenditure of Village Panchayats and Panchayat Unions showed an increasing trend during 2005-08, in District Panchayats the same after increasing in 2006-07, declined during 2007-08.

Based on the details compiled by DRDPR, the capital expenditure incurred towards the main core sectors viz., water supply, street lighting and road works during 2005-08 are furnished in **Table 4.19** except the break-up details of capital expenditure of District Panchayats during 2007-08.

Table 4.19: Core sector-wise capital expenditure of PRIs

(Rupees in crore)

Name of the core sector	Category of PRI	2005-06	2006-07	2007-08
Water supply	Village Panchayats	36.38	39.38	41.32
	Panchayat Unions	37.27	27.61	49.96
	District Panchayats	5.69	7.85	NA
Total		79.34	74.84	NA
Street lights	Village Panchayats	14.35	16.90	9.53
	Panchayat Unions	2.32	3.04	2.72
	District Panchayats	1.69	2.55	NA
Total		18.36	22.49	NA
Road works	Village Panchayats	53.89	37.27	55.90
	Panchayat Unions	88.51	68.08	145.11
	District Panchayats	26.97	18.30	NA
Total		169.37	123.65	NA

NA: Not available

The capital expenditure figures under water supply, street lights and road works for 2006-07 given (February 2009) by CRDPR differ from the figures furnished during last year. No reasons for giving the revised figures for 2006-07 were furnished by CRDPR.

In addition to above, works under the core sectors of roads and water supply were also executed under other schemes⁸ executed through various agencies⁹ with the assistance of Central and State Governments.

4.9 Response to Audit

Audit Report upto the year 1996-97 were discussed by the Committee on Public Account (PAC) and recommendations were issued. Despite the directions of the PAC to Government Departments for furnishing prompt replies to pending recommendations, as of December 2008, there were

⁸ Water supply works: Rural water supply schemes, Combined water supply schemes, Individual power pump schemes, Mini power pump schemes, Accelerated Rural Water Supply Programme, Swajaldhara, etc.

Road works: District and other roads schemes, Improvement to rural roads schemes with the assistance from NABARD/HUDCO etc., Pradhan Mantri Gram Sadak Yojana, etc.

⁹ Water supply works: Tamil Nadu Water Supply and Drainage Board.
Road works: Highways Department, Tamil Nadu Road Development Corporation.

240 recommendations (10 C&AG Reports) relating to the period 1982-83 to 1996-97 pertaining to the Rural Development Department pending final settlement which *inter-alia* consisted of paragraphs relating to PRIs.

4.10 Conclusion

There was no mechanism with the Panchayat Raj Department for collection (centrally) of data on receipts and expenditure of PRIs during the year so that an overall financial picture for each year may be available. The performance of Village Panchayats in terms of collection *vis-à-vis* demand of taxes was very good as per the reports of the Director of Rural Development and Panchayat Raj. Test check disclosed that grants received from GOI based on Twelfth Finance Commission recommendations were belatedly released to PRIs during 2006-07 and no interest for the belated payment was paid though envisaged in the guidelines issued by Twelfth Finance Commission. Non-finalisation of software for the management information system in the data base approved by C&AG led to non-utilisation of computers purchased during 2003-06 at a cost of Rs 51.64 crore for the intended purpose. Pendency of huge number of inspection paragraphs of DLFA in respect of Panchayat Unions prior to 2002-03 warranted an urgent need for holding regular joint sittings, district-wise, with the officers of Local Fund Audit Department for expeditious settlement of long pending paragraphs.

4.11 Recommendations

- Action should be initiated to institute an effective mechanism for collection and compilation of receipts and expenditure of the Panchayat Raj Institutions for monitoring and decision-making.
- Arrangements for speedy settlement of audit objections and inspection paragraphs should be strengthened through regular joint sittings and the pendency reduced in a phased manner so as to enable the Panchayat Unions and District Panchayats to correct their deficiencies.
- Grants released on the recommendations of Twelfth Finance Commission should be released immediately to the Panchayat Raj Institutions.
- The software for the management information system and database accounts should be immediately developed for the fruitful utilisation of computer-infrastructure provided in the Panchayat Raj Institutions.