

## CHAPTER I

### AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

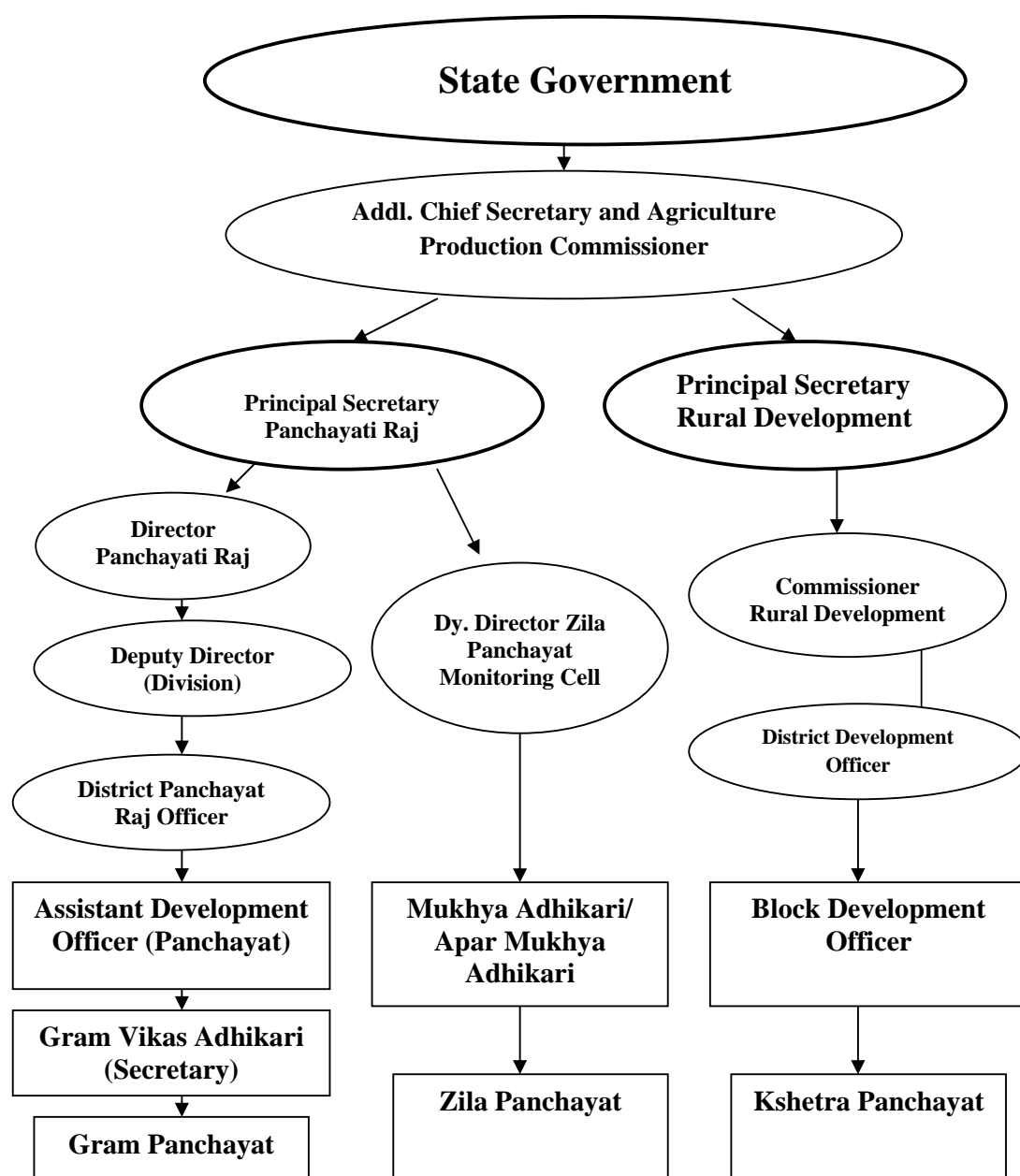
#### 1.1 Introduction

In keeping with the Seventy Third Constitutional Amendment (1992), Uttar Pradesh Kshetra Panchayat and Zila Panchayat Adhiniyam were enacted in 1994 to establish a three-tier Panchayati Raj Institution (PRI) system of elected bodies. The Act envisages decentralization of power to Rural Self Governing Bodies, viz. *Gram Panchayat* at village level, *Kshetra Panchayat* at intermediate level and *Zila Panchayat* at the district level which till then vested with the State Government. The system of PRI aimed at increasing participation of people and effective implementation of rural development programmes. The overall supervision, co-ordination, planning and implementation of developmental schemes vested with the *Zila Panchayat*.

At the end of March 2008, there were 70 *Zila Panchayats* (ZPs), 820 *Kshetra Panchayats* (KPs) and 52002 *Gram Panchayats* (GPs) in the State. The total rural population of the State, as per Census 2001, was 13.22 crore. The last election to the elected bodies of these PRIs was held during June to October 2005 in which 51976 *Gram Pradhan* for *Gram Panchayats*, 816 *Pramukh* for *Kshetra Panchayats* and 70 *Adhyaksha* for *Zila Panchayats* were elected.

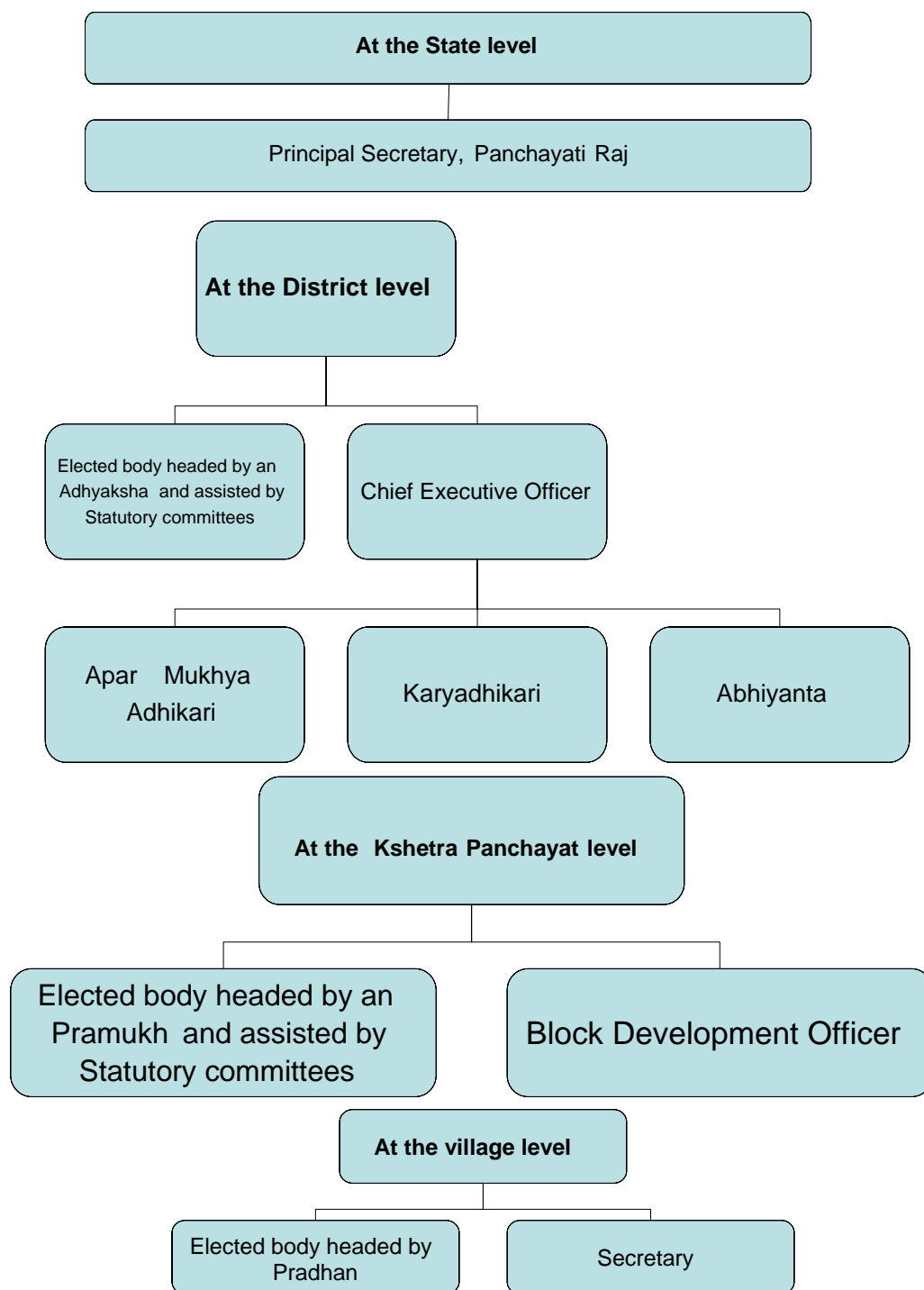
## 1.2 Organizational set-up

1.2.1 The Administrative control of the three tiers of PRIs is shown below:



While the 'Adhyaksha' heads the Zila Panchayats, 'Pramukh' and 'Pradhan' head the Kshetra Panchayats and Gram Panchayats respectively.

1.2.2 The organizational structure of the three tiers of PRIs is as shown below:



### 1.3 Data Base on finances of PRIs

Eleventh Finance Commission recommended that a data base on the finances of the PRIs should be developed at the district, State and Government of India levels and be accessible by computerizing it and linking it through VSAT<sup>1</sup>. The data were to be collected and compiled in standard formats prescribed by the Comptroller & Auditor General of India. The objective was to facilitate comparison of performance of the PRIs among the States at the Government of India level and State Government level.

The data base was, however, not developed up to May 2008 and the earmarked fund (Rs. 42.07 crore) was lying unutilized in the PLA of the Director, Panchayati Raj, Lucknow since 2000-01 (Rs. 21.04 crore) and 2001-02 (Rs. 21.03 crore). Any action in this regard taken at Government level was awaited (July 2008).

Non creation of the data base denied the Government to assess accurately overall financial performances of the PRIs.

#### **1.4 Sources of revenue**

##### *Flow of revenues*

For execution of various developmental schemes, the PRIs receive grant from GOI and the State Government. The grants are also given as per the recommendations of the Central and State Finance Commissions for enhancing the service delivery of the PRIs. In addition, the PRIs also earn tax and non-tax revenue out of their own resources. The sources of revenues for the PRIs comprises:

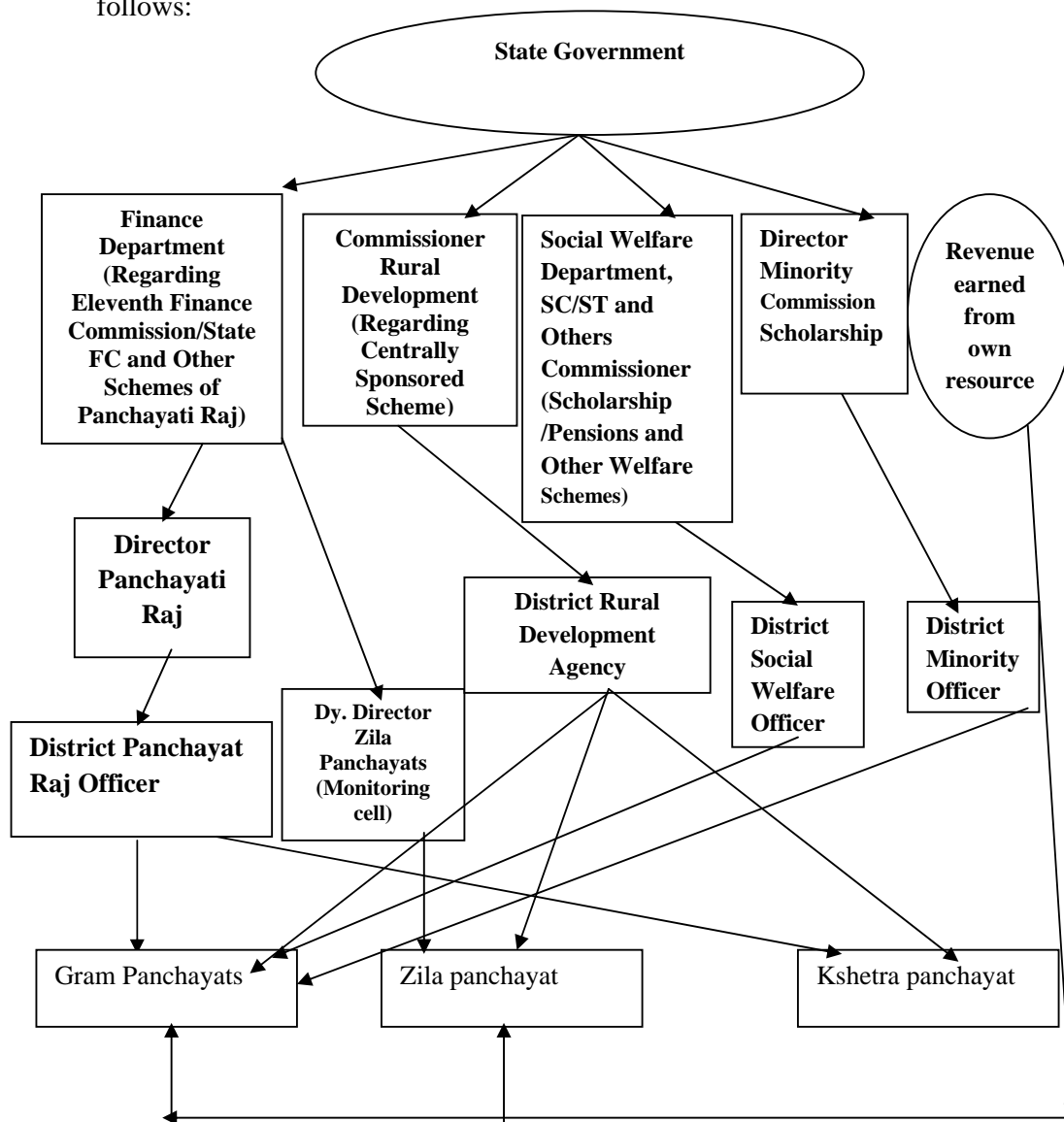
- grants assigned under the recommendations of the Twelfth Finance Commission;
- five *per cent* of net proceeds of State's total tax revenue as per recommendations of the Second State Finance Commission;
- grants received through District Rural Development Agency for execution of Centrally Sponsored Schemes;
- funds from Departments for the functions transferred to the PRIs;
- revenue earned by the PRIs out of their own resources such as taxes, rent, fees etc.

---

<sup>1</sup> Very Small Aperture Terminal.

**Funds flow chart**

The flow of funds to the PRIs at the grass root level is depicted in a chart as follows:



**Aggregate receipts of the PRIs**

The aggregate receipts of grants by the PRIs under the recommendations of Twelfth Finance Commission (TFC), State Finance Commission (SFC), grants

released for Centrally Sponsored Schemes and revenue realized from their own resources during 2004-07 were as under:-

Year	Twelfth Finance Commission	State Finance Commission	Centrally Sponsored Schemes	Own resources	Total
<b>(Rupees in crore)</b>					
2004-05	0.00	758.45	1688.25	72.25	2518.95
2005-06	585.60	816.94	1949.96	80.95	3433.45
2006-07	585.60	1169.05	1698.37	73.90	3526.92
<b>Total</b>	<b>1171.20</b>	<b>2744.44</b>	<b>5336.58</b>	<b>227.10</b>	<b>9479.32</b>

*Source:* Twelfth Finance Commission-Director, Panchayati Raj, Lucknow, State Finance Commission-Director, Panchayati Raj & Dy. Director, Zila Panchayat (Monitoring Cell) Lucknow, Centrally Sponsored Scheme-Commissioner, Rural Development, Lucknow.

An analysis of the table revealed that there was increasing trend in receipts during 2004-07. There was increase of Rs. 914.50 crore in receipts during 2005-06 over the receipts of 2004-05 and Rs. 93.47 crore during 2006-07 over 2005-06. The major contributor was Centrally Sponsored Schemes the share of which to the total receipts accounted for 56 *per cent* (2004-07). This was followed by the receipts under State Finance Commission the share of which accounted for 29 *per cent* (2004-07).

#### ***Devolution of State Finance Commission grant***

Second State Finance Commission recommended that five *per cent* of the net proceeds of Tax Revenue should be devolved to the PRIs. However, shortfall in devolution was noticed during 2004-07 as is evident from the table given below:-

Year	Net proceeds of tax revenue of State Government	Funds to be devolved	Funds actually devolved	Shortfalls in devolution of fund
<b>Rupees In crore</b>				
2004-05	15693	785	758	27
2005-06	18858	943	817	126
2006-07	22998	1150	1169	(-)19
<b>Total</b>	<b>57549</b>	<b>2878</b>	<b>2744</b>	<b>134</b>

*Source:* Director, Panchayati Raj, Lucknow; Deputy Director, Zila Panchayat (Monitoring Cell), Lucknow and Commissioner Rural Development, Lucknow.

An analysis of the table revealed while there was an overall short devolution of Rs. 153 crore during 2004-06, the maximum short devolution was noticed during 2005-06 when only Rs. 817 crore was devolved against Rs. 943 crore to be devolved (short by 13 *per cent*). The shortfalls in devolution of funds deprived PRIs at the grass root level to plan and undertake developmental activities in their respective areas thereby denying increasing peoples' participation as an objective.

## 1.5 Application of funds

### *Utilization of grants received under Twelfth Finance Commission*

The table below brings out the position of funds available under the TFC, its utilization (based on expenditure statement as furnished by the District Panchayat Raj Officers to the Director, Panchayati Raj, Lucknow) during 2005-07:-

Year	Total Funds available	Funds utilised	Funds not utilised
	(Rupees in crore)		
2005-06	585.60	585.02	0.58
2006-07	585.60	551.18	34.42
Total	1171.20	1136.20	35.00

Source: Panchayati Raj Institutions, Lucknow.

Rupees 0.58 crore lapsed to Government account during 2005-06 due to non draws from the treasury at the Directorate level. Rs. 33.64 crore out of Rs. 34.42 crore (2006-07), was for Data Base computerization and the balance of Rs. 0.78 crore for maintenance of account of *Gram Panchayats*.

### *Utilization of grants under State Finance Commission Grant*

The table below brings out the position of funds available under the SFC, utilization and non utilization thereof during 2004-07:-

Year	Funds available	Funds utilised (Per cent in bracket)	Funds not utilised (Per cent in bracket)
	Rupees in crore		
2004-05	758.45	697.34 (92)	61.11 (8)
2005-06	816.94	504.36 (62)	312.58 (38)
2006-07	1169.05	714.51(61)	454.54 (39)
Total	2744.44	1916.21(70)	828.23 (30)

Source: Director, Panchayati Raj, Deputy Director, Zila Panchayat, Lucknow.

The table revealed that while there was increasing trend in availability of funds in each succeeding years during 2004-07, the pace of utilization thereof was decreasing each year successively during the same periods and shortfall in utilization against funds available increased from eight *per cent* in 2004-05 to 39 *per cent* in 2006-07. Evidently, people were deprived of the benefits of basic amenities like road, water supply and sanitation etc.

***Grants for implementation of Centrally Sponsored Schemes***

The PRIs were the works - executing agencies of Centrally Sponsored Schemes at grass root level. The Government of India released funds for this and the State Government also released its matching shares.

Based on data made available by the Commissioner, Rural Development, Lucknow, the table below brings out the position of grants received by the PRIs during 2004-07 for implementation of the Centrally Sponsored Schemes:-

Names of Centrally Sponsored Schemes and periods	Grants received			Grants released to PRIs
	Central	State	Total	
	Rupees in crore			
Sampurna Gramin Rojgar Yojna (2004-07)	2254.85	749.75	3004.60	3004.60
Swaran Jayanti Gram Swarajgar Yojna (2004-07)	542.62	180.80	723.42	723.42
Indira Awas Yojna (2004-07)	1013.51	335.55	1349.06	1349.06
National Rural Employment Guarantee Yojna (2006-07)	129.50	130.00	259.50	259.50

***Revenue realized from own resources***

The PRIs were entitled to generate revenues by levying rent, taxes, fees etc from the	2004-05		2005-06		2006-07	
	Rupees in crore					
	Target	Achievement (per cent in bracket)	Target	Achievement (per cent in bracket)	Target	Achievement (per cent in bracket)
70 Zila Panchayats	74.00	64.47 (87 )	74.48	72.56 (97)	81.43	70.03 (86)
820 Kshetriya Panchayats	Nil	Nil	Nil	Nil	Nil	Nil
52002 Gram Panchayats	7.87	7.78 (99)	8.71	8.39 (96)	8.89	3.87 (44)
<b>Total</b>	<b>81.87</b>	<b>72.25 (88)</b>	<b>83.19</b>	<b>80.95 (97)</b>	<b>90.32</b>	<b>73.90 (82)</b>

*Source:* Director, Panchayati Raj, Deputy Director, Zila Panchayat, Lucknow.

The table revealed that *ZPs* and *GPs* realized (2004-07) revenues with shortfalls (ranging between 18 and 3 *per cent*) against targets. The *KPs* did not realize revenues due to non fixation of targets for them by the Government.

It was noticed that 13 *ZPs*, raised demands for Rs. 18.90 crore for 2006-07 which included Rs. 10.84 crore on account of arrear dues on account of rents, license fees etc. from the tenants, licenses and contractors etc. (*Appendix-1*). Out of this, a sum of Rs. 6.39 crore was recovered and the rest of Rs. 12.51



crore was still lying unrecovered (for no reasons). The financial position of the ZPs suffered to this extent.

### 1.6 Overall financial position

As mentioned in preceding paragraph 1.3 and succeeding paragraph 1.10, neither the Database on finances of the PRIs was created nor were the accounts prepared as a result of which the overall financial position of the PRIs in the State depicting the opening balances, receipts, expenditure and closing balances could not be ascertained and hence not given.

During 2004-07, records of 2735 PRIs were test checked in audit. Their financial positions were as per the details brought out below:-

Year	Number of PRIs test checked	Opening balances	Funds received	Total funds available	Expenditure (per cent in bracket)	Closing balances
<b>Rupees in crore</b>						
<b>Zila Panchayats</b>						
2004-05	44	178.36	310.05	488.41	318.90 (65.29)	169.51
2005-06	51	191.55	462.20	653.75	324.35 (49.61)	329.40
2006-07	52	338.56	476.91	815.47	497.80 (61.04)	317.67
<b>Kshetriya Panchayats</b>						
2004-05	139	29.30	104.18	133.48	89.27 (66.88)	44.21
2005-06	139	47.05	121.15	168.20	117.01 (69.57)	51.19
2006-07	139	51.19	160.57	211.76	151.53 (71.56)	60.23
<b>Gram Panchayats</b>						
2004-05	562	4.54	21.01	25.55	20.43 (79.96)	5.12
2005-06	2274	20.57	92.00	112.57	75.75 (67.29)	36.82
2006-07	2430 <sup>2</sup>	39.18	135.36	174.54	132.32 (75.81)	42.22
<b>Total</b>					<b>1727.36</b>	

An analysis of the table revealed that PRIs underutilized the funds. The major defaulters were the ZPs where Rs. 317.67 crore was lying unutilized at the end of March 2007. Due to underutilization, funds continued to accumulate. Evidently, the PRIs did not keep pace with funds flow and its availability. This

<sup>2</sup> Financial position of 114 out of 2544 Gram Panchayats were not issued to the Department.

indicated poor planning for funds utilization for achieving intended objectives in a time bound manner.

### **1.7 District Planning Committees**

Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam* 1961 provided<sup>3</sup> that the *ZPs* would prepare each financial year a development programme for the district as a whole incorporating therein the development plan of *KPs* and *GPs* of the district and submit it for approval to the District Planning Committee which was to be constituted in terms of Uttar Pradesh District Planning Committee Act 1999.

It was noticed that such committees, though constituted in April 2008 after lapse of nine years, were non functional as of June 2008. As a result, the objective of the co-ordination amongst different local bodies for balanced and integrated development of the district could not be fulfilled.

### **1.8 Budgeting and Budgetary Process**

Budgeting and budgetary process entails preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it was kept within the authorized grants or appropriations. With this objective, each PRI in the State was to prepare the annual budget in terms of Uttar Pradesh *KPs* and *ZPs* Manual<sup>4</sup>. It was, however, noticed that this was not prepared in 2544 *GPs* and 139 *KPs* test checked during 2007-08 and executed works on ad hoc basis.

### **1.9 Accounting arrangements**

- The Comptroller and Auditor General of India, on the recommendations of Eleventh Finance Commission, prescribed (2002) Budget and Accounting formats for all the three tiers of PRIs. Although the Government accepted (March 2003) this format but *ZPs* and *KPs* did not maintain their accounts in the prescribed formats. The *GPs*, although maintained their accounts in it through the Chartered Accountants but their accounts were in arrears for three years due to delayed engagement of the Chartered Accountants for the purpose and non submission of records by the *GPs* to them when engaged.

---

<sup>3</sup> Sections 63 and 86

<sup>4</sup> Section 110

- As of June 2008, the accounts of 27564 GPs for the year 2004-05, 41832 GPs for the year 2005-06 and 51677 GPs for the year 2006-07 were in arrears. In test check during 2006-2007, it was noticed that 9<sup>5</sup> out of 52 ZPs and 9<sup>6</sup> out of 139 KPs had not prepared annual accounts. Thus, the accounts of the PRIs lacked transparency.

TFC observed that accurate information on the finances of the PRIs were not available at the state level and accordingly recommended that credible information on the finances of the PRIs at the state level should be maintained so as to assess actual requirement of funds for each tier of the PRI. However, these accounts were not compiled at district and State levels. As a result, fund allocations to the PRIs were not based on 'need-based assessment'.

- Uttar Pradesh Zila Parishads and Kshetra Samities (Budget and General Accounts) Rules 1965<sup>7</sup> provided that each item of receipts and expenditure as per cash book should be compared with the treasury/ bank statements at the end of each month. The differences, if any, should be reconciled. It was, however, noticed in test check that seven ZPs (*Appendix-2*) and sixteen KPs (*Appendix-2*) (test checked in 2007-08) had a unreconciled difference of Rs 6.20 crore as of 31 March 2007 between the cash book and the treasury/bank statements. The unreconciled differences were fraught with possibilities of misuse / misappropriation of funds.

### 1.10 Audit arrangements

The Chief Audit Officer, Co-operative Societies and Panchayats is primary auditor for all the three tiers of the PRIs and certifies their accounts.

The relevant data made available by Chief Audit Officer, Co-operative Societies and Panchayats revealed that majority of the PRI units remained unaudited<sup>8</sup> reportedly due to non submission of records by them during the periods 2005-08 as per the details given below:-

Name of the PRIs	2005-06		2006-07		2007-08	
	Allotted	Arrear (per cent in bracket)	Allotted	Arrear (per cent in bracket)	Allotted	Arrear (per cent in bracket)
Zila Panchayats	70	50 (71.43)	70	47 (67.14)	70	47 (67.14)
Kshetra	809	752	809	750	809	787

<sup>5</sup>Ambedkar Nagar, Bijnore, Faizabad, Farukhabad, Hamirpur, Kanpur Nagar, Pratapgarh, Sant Kabir Nagar and Unnao

<sup>6</sup>Auraiya: Ajitmal and Auraiya; Azamgarh: Mirzapur, Mohammadpur and Palhani; Badaun: Samrer and Etah; Ganjundwara, Jalesar and Patiyali

<sup>7</sup>Section 84 (2)

<sup>8</sup>Based on information furnished by Chief Audit Officer, Co-operative Societies and Panchayats.

<i>Panchayats</i>		(92.95)		(92.71)		(97.28)
<i>Gram</i>	51772	41439	51772	40767	51772	37149
<i>Panchayats</i>		(80.04)		(78.74)		(71.76)
<b>Total</b>	<b>52651</b>	<b>42241</b>	<b>52651</b>	<b>41564</b>	<b>52651</b>	<b>37983</b>
		<b>(80.23)</b>		<b>(78.94)</b>		<b>(72.14)</b>

As majority of the PRIs remained unaudited during the periods 2005-08, the financial data were not authenticated and thus not reliable.

### **1.11 Position of entrustment of audit/ Technical Guidance and Supervision to Comptroller and Auditor General of India**

(a) The Eleventh Finance Commission recommended exercising of Technical Guidance and Supervision (TGS) over the proper maintenance of accounts of PRIs and their audit by Comptroller & Auditor General of India. Consequently, Government entrusted (October 2001) audit of local bodies under section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 to the C&AG. 12191 Inspection Reports and 7802 paras were sent to the Chief Audit Officer during 2003-08 for pursuance. However, these remained unreplied. Further, suitable amendments in the State Acts/ Rules were not made even after a lapse of seven years as of June 2008.

(b) During 2007-08, 52 ZPs, 139 KPs and 2544 GPs were test checked and 1461 paragraphs on poor financial management and financial irregularities resulting in infructuous and excess expenditures, diversion of funds and loss of revenue etc. were communicated to the Head of the Office, Director Panchayati Raj and Chief Audit Officer, Co-operative Societies and Panchayats during 2007-08. However, the compliance of these paragraphs was awaited.

### **1.12 Other points**

#### ***Recommendations of State Finance Commission (SFC)***

Second SFC constituted in February 2000 for the period 2001-2006, made 95 recommendations mainly on the issues relating to timely release of the grants, enhancement in their own resources, transferring of income of ZP to GP, resource mobilization of the PRIs etc. It was noticed that Government accepted *in toto* 69 recommendations and partially 7 and rejected 19 which mainly related to imposing of property tax in rural areas, revision of rates of land revenue and enhancing income of PRIs through license etc.

#### ***Non transfer of revenue to Gram Panchayat***

Government order (October 2002) envisaged that ZPs should ensure transfer to the GPs 50 *per cent* of their income earned from disposal of dead animals

including arrears. However, 14 test checked ZPs earned Rs. 2.04 crore (*Appendix- 3*) during 2006-07 from the disposal of the dead animals. Of this, Rs. 1.02 crore (50 *per cent*) was not transferred to the GPs during the same periods as of June 2008.

### **1.13 Conclusion**

The budgeting and budgetary process was not followed and the accounting records were not maintained in the prescribed formats as a result of which true and fair view of income and expenditure of the PRIs were not available and the grants were not utilized in a time bound manner to derive intended benefits. The arrears in audit rendered the financial data unreliable. The Database at any of the three levels viz., District, State and Central was also not developed despite availability of funds. The District Planning Committees were not functional even after lapse of nine years of enacting the District Planning Committee Act 1999 as a result of which their developmental activities could not be monitored centrally at district level.

### **1.14 Recommendations**

- Government should ensure that database on finances are created at the district level as well as at the state level as per recommendations of the Eleventh and Twelfth Finance Commissions.
- Government should ensure that District Planning Committees are functional.
- The PRIs should be made accountable for preparation of their annual accounts in the prescribed formats within a specified period and their accounts should be compiled at the district level and at the State level for an objective assessment of allocation and utilization of funds.
- Government should make PRIs accountable to the Chief Audit Officer for submission of records for audit and also to ensure replies to Inspection Reports/Para.