

## CHAPTER-I

### AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Introduction

Keeping in view 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 (GP) at village level, Kshetra Panchayat (KP) at intermediate level and Zila Panchayat (ZP) at the district level. 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.

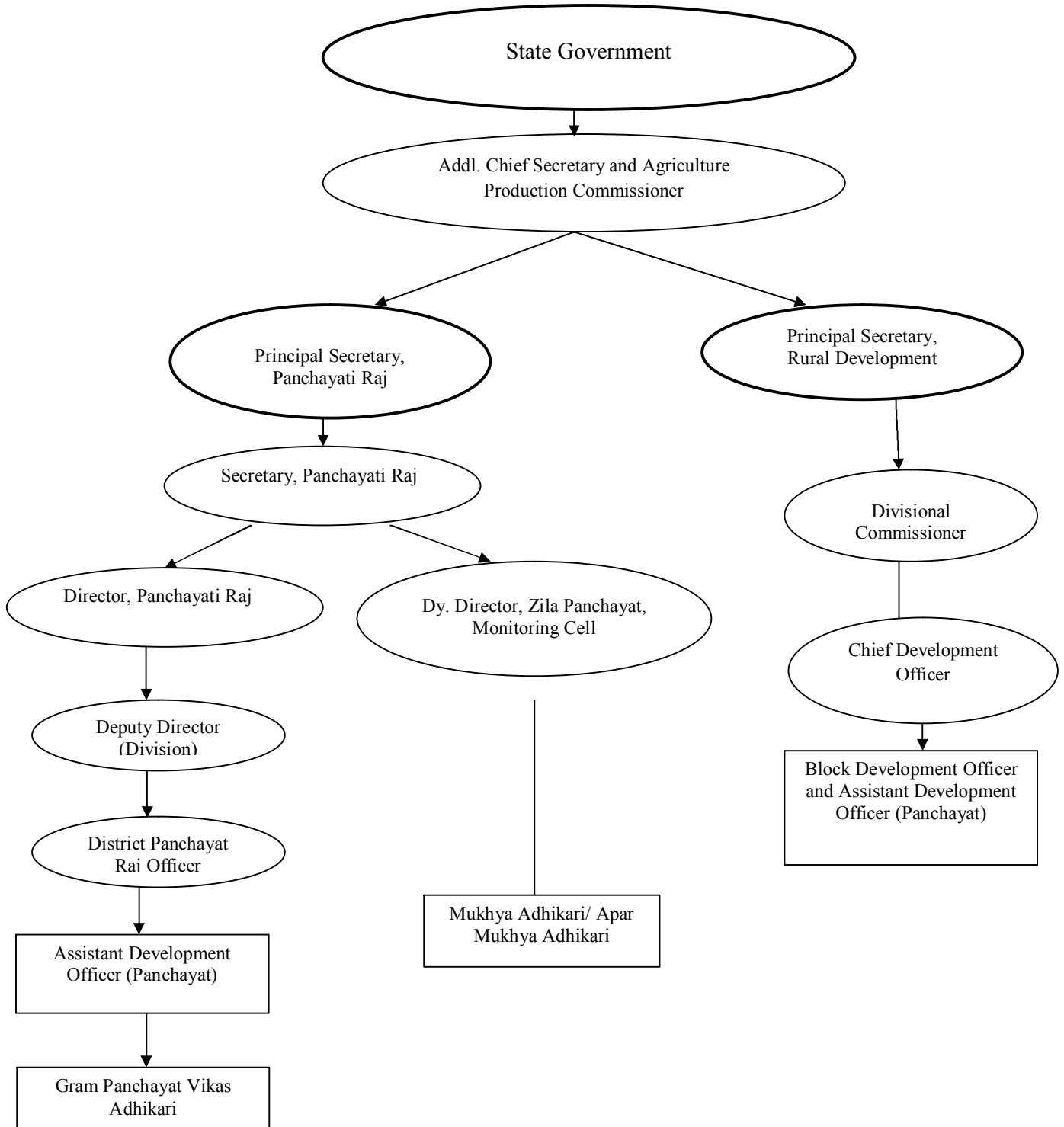
At the end of March 2009, there were 71 ZPs<sup>1</sup>, 820 KPs and 51,976 GPs in the State. The population of the State covered under PRIs as per census 2001, was 13.22 crore. The last election to the elected bodies of these PRIs was held during June 2005 to October 2005 in which 51,976 Gram Pradhan for GPs, 816 Pramukh for KPs and 70 Adhyaksha for ZPs were elected.

---

<sup>1</sup> ZP, Kanshiram Nagar was created in April 2008.

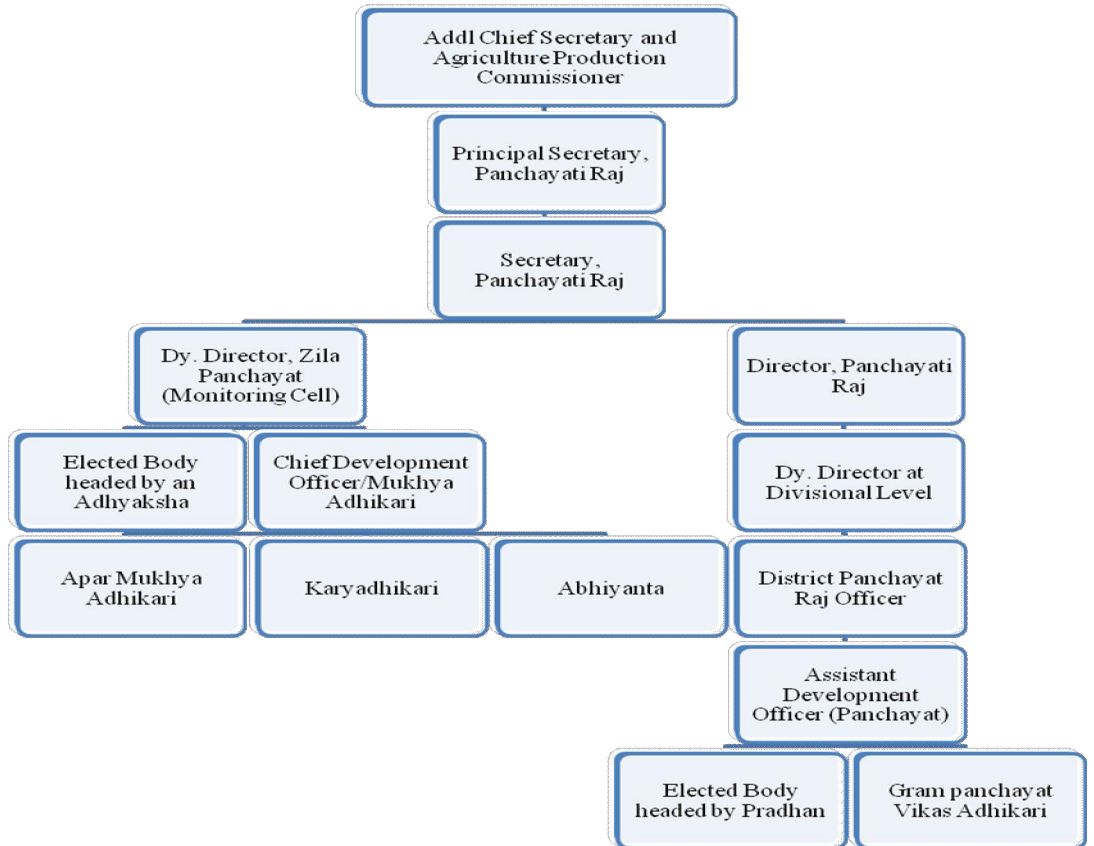
## 1.2 Organizational set-up

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

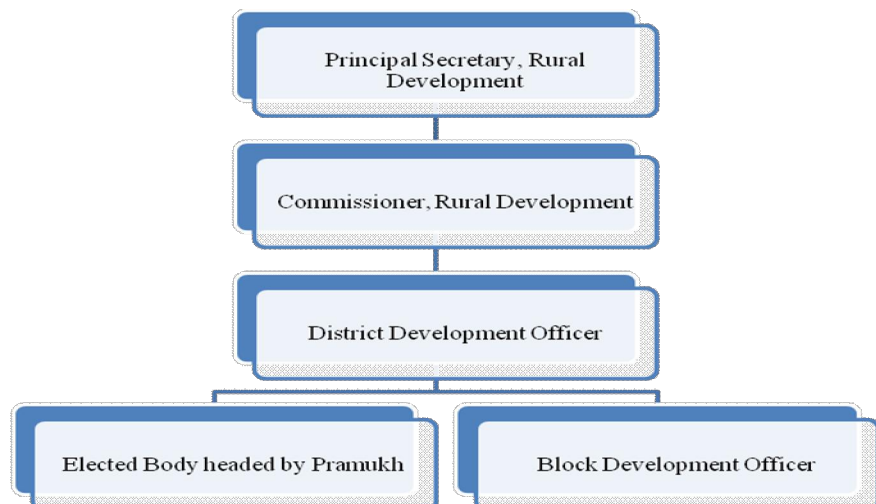


The organizational structure of the three tiers of PRIs is as shown below:

### Zila Panchayats and Gram Panchayats



### Kshetriya Panchayats



### **1.3 Data Base on finances of PRIs**

Eleventh Finance Commission (EFC) recommended that a data base on the finances of the PRIs should be developed at the district, State and the Government of India levels and be accessible by computerizing it and linking it through VSAT<sup>2</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 the State Government level.

In view of EFC recommendation, ` 104.56 crore<sup>3</sup> were earmarked from the grant of EFC (` 42.07 crore) and Twelfth Finance Commission (TFC) (` 62.49 crore) for creation of data base and was kept in Personal Ledger Account (PLA) of ZP, Lucknow with the direction that the fund would not be withdrawn without sanction of the State Government. As per information collected (January 2010) from Director, Panchayati Raj, Lucknow, an amount of ` 42.07 crore earmarked from EFC for data base was diverted to the Government account on the orders (November 2009) of the State Government. ` 0.12 crore out of the balance amount of ` 62.49 crore was kept reserved for consultancy of computerization from Indian Institute of Technology (IIT), Kanpur and remaining ` 62.37 crore was diverted to PRIs for the maintenance of the drinking and sanitation amenities.

Thus, the whole amount of ` 104.56 crore earmarked for data base was either diverted for other purposes or kept unspent and data base of PRIs was not created.

---

<sup>2</sup> Very Small Aperture Terminal.

<sup>3</sup> 11<sup>th</sup> Finance Commission 2000-01 ` 21.04 and 2001-02 ` 21.03 and 12<sup>th</sup> Finance Commission 2006-07, ` 33.64 and 2007-08 ` 28.85 Total ` 104.56

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

## **1.4 Sources of revenue**

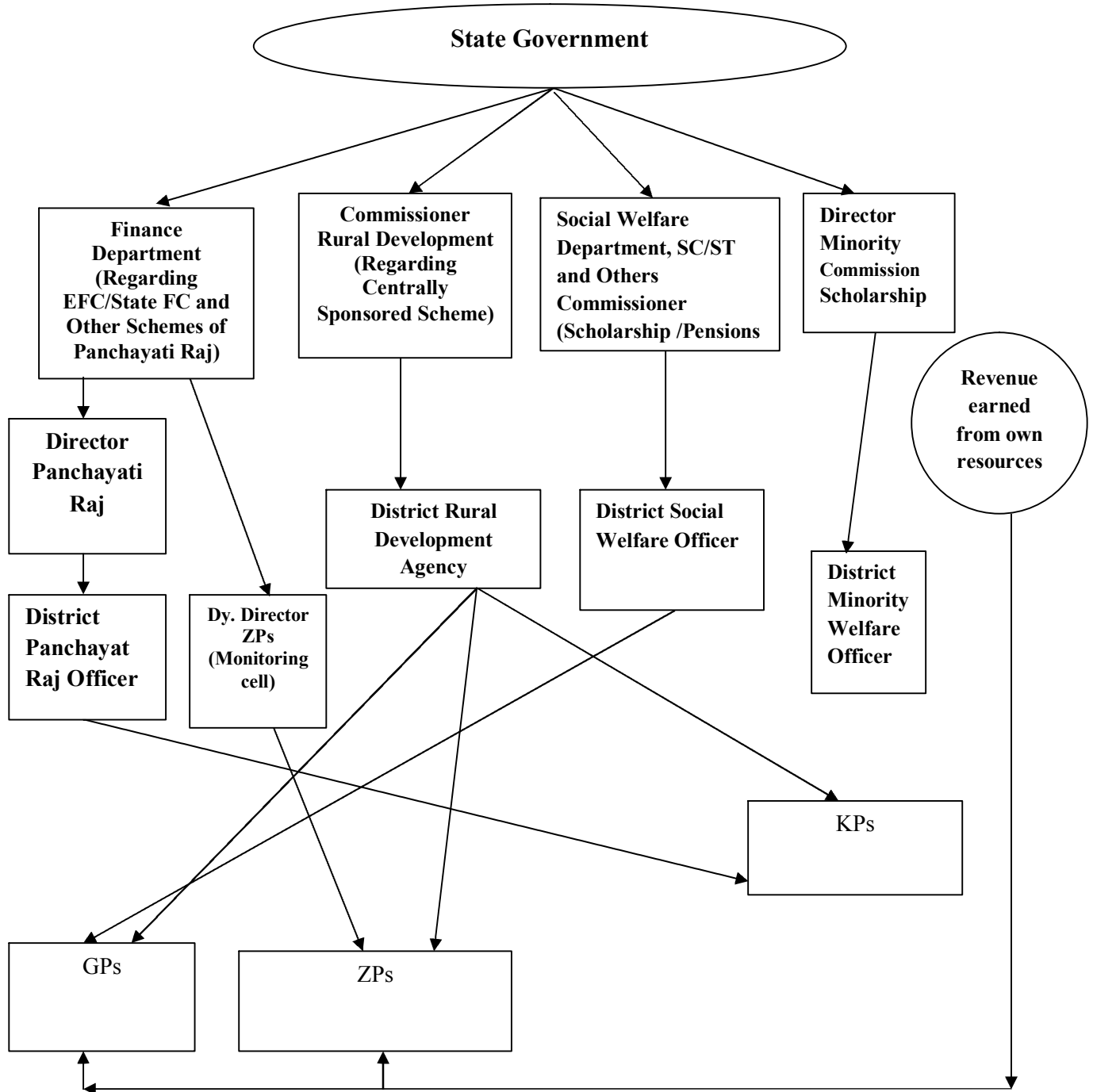
### **1.4.1 Flow of revenues**

For execution of various developmental schemes, PRIs receive grants from the Government of India (GOI) and the State Government. 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 source 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 net tax revenue as per recommendations of the Second State Finance Commission;
- grants received through District Rural Development Agency/Chief Development Officer 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.

**1.4.2 Funds flow chart**

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



### 1.4.3 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 2005-09 were as under:

(` in crore)

Year	Twelfth Finance Commission	State Finance Commission	Centrally Sponsored Schemes	Own resources	Total
2005-06	585.60	816.94	1,949.96	80.95	3,433.45
2006-07	585.60	1,169.05	1,698.37	73.90	3,526.92
2007-08	585.60	1,567.77	3,340.80	90.75	5,584.92
2008-09	587.28	1,267.21	8,679.89	91.80	10,626.18
<b>Total</b>	<b>2,344.08</b>	<b>4,820.97</b>	<b>15,669.02</b>	<b>337.40</b>	<b>23,171.47</b>

(Source: Director, Panchayati Raj, Lucknow)

It would be seen from the table that there was increasing trend in receipts during 2005-09. The major increase occurred under centrally sponsored schemes.

### 1.4.4 Devolution of State Finance Commission grant

Second SFC recommended that five per cent of the net proceeds of tax revenue should be devolved to the PRIs.

Though there was shortfall in devolution of fund during 2005-06 and 2008-09, it was more than 5 per cent during 2006-08 as given below:

(` in crore)

Year	Net proceeds of tax revenue of State Government	Funds to be devolved	Funds actually devolved	Shortfalls/Excess	Percent
2005-06	18,858	943	817	(-) 126	(-) 13
2006-07	22,998	1,150	1,169	(+) 19	(+) 2
2007-08	24,959	1,248	1,568	(+) 320	(+) 26
2008-09	28,659	1,433	1,267	(-) 166	(-) 12
<b>Total</b>	<b>95,474</b>	<b>4,774</b>	<b>4,821</b>	<b>(+) 47</b>	<b>(+) 0.98</b>

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

## 1.5 Utilization of funds

### 1.5.1 Utilization of grants of Twelfth Finance Commission

The table below brings out the position of fund available under the TFC, and its utilization as furnished by the Director, Panchayati Raj, Lucknow during 2005-09:

( ` in crore)

Year	Total funds available	Funds utilized	Funds not utilized
2005-06	585.60	585.02	0.58
2006-07	585.60	551.96	33.64
2007-08	585.60	556.52	29.08
2008-09	587.28	587.10	0.18
<b>Total</b>	<b>2,344.08</b>	<b>2,280.60</b>	<b>63.48</b>

(Source: Director Panchayati Raj Institutions, Lucknow)

Rupees 0.99 crore lapsed to the Government account during 2005-09 due to non-clearance of cheque from Bank at the Directorate level. ` 62.49 crore out of ` 63.48 crore (2005-09), was for data base computerization. The analysis revealed that the figures of utilized funds were not realistic as the funds released were treated as utilized. No Management Information System was developed in this regard as of December 2009.



### 1.5.2 Utilization of grants of State Finance Commission

The table below brings out the position of funds available under the SFC, utilization and non utilization thereof during 2005-08.

(` in crore)

Year	Unutilized funds of previous year	Funds received during year	Total Funds available	Funds utilised (per cent)	Funds not utilised (per cent)
(1)	(2)	(3)	(4)	(5)	(6)
2005-06	61.11	816.94	878.05	504.36 (57)	373.69 (43)
2006-07	373.69	1,169.05	1,542.74	724.01 (47)	818.73 (53)
2007-08	818.73	1,567.77	2,386.50	1,065.30 (45)	1,321.20 (55)

(Source: Director, Panchayati Raj, Deputy Director, Zila Panchayat, Lucknow)

The table revealed that pace of utilization of fund was limited to 45 to 57 per cent of the fund available each year during 2005-08. Shortfall in utilization of funds hampered development works to be executed as a result of which people deprived of basic amenities despite availability of fund.

### 1.5.3 Grants for implementation of centrally sponsored schemes

The PRIs were the executing agencies of centrally sponsored schemes at grass root level.

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 2006-09 for implementation of the centrally sponsored schemes:

(` in crore)

Names of Centrally sponsored schemes and periods	Grants received			Grant released to PRIs
	Central	State	Total	
Sampoorna Gramin Rojgar Yojana (2006-08) – SGRY	873.55	286.66	1,160.21	1,160.21
Swaran Jayanti Gram Swarajgar Yojana (2006-09) – SGSY	862.48	284.24	1,146.72	1,146.72
Indira Awas Yojana (2006-09)	1,852.61	517.74	2,370.35	2,370.35
National Rural Employment Guarantee Yojana (2006-09) – NREGA	5,747.14	630.00	6,377.14	6,377.14
Pradhan Mantri Gramin Sadak Yojana (2008-09) – PMGSY	1,649.32	-	1,649.32	1,649.32
Rural Drinking Water Scheme (2008-09) – RDWS	537.78	411.64	949.42	949.42
National Health Insurance Scheme (2008-09) – NHIS	20.62	-	20.62	20.62
Bio gas (2008-09)	0.52	-	0.52	0.52

The operation of SGRY was stopped after 2007-08 while funds under PMGSY, RDWS, NHIS and Biogas were received during 2008-09

#### **1.5.4 Revenue realized from own resources**

The PRIs were entitled to generate revenues by levying rent, taxes, fees etc. under their jurisdiction. Accordingly, the Government fixed targets of revenue realization for the PRIs for the year 2006-09. The table below brings out the targets fixed by the Government during 2006-09 and achievements there against by PRIs:

(` in crore)

Name and Number of PRIs	2006-07		2007-08		2008-09	
	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)
71 ZPs	81.43	70.03 (86)	83.42	86.37 (104)	93.86	88.22 (94)
820 KPs <sup>4</sup>	-	-	-	-	-	-
51,976 GPs	8.89	3.87 (44)	4.88	4.39 (90)	4.53	3.58 (79)
<b>Total</b>	<b>90.32</b>	<b>73.90 (82)</b>	<b>88.30</b>	<b>90.76 (103)</b>	<b>98.39</b>	<b>91.80 (93)</b>

(Source: Director, Panchayati Raj and Dy. Director, Zila Panchayat at Lucknow)

The table revealed that ZPs achieved the target during 2007-08 whereas the achievements were short by 14 and 6 per cent during 2006-07 and 2008-09 respectively. Even though targets of revenue realizations for GPs were decreased year after year the shortfall continued to occur.

Further, it was noticed that 16 ZPs raised demands for `15.83 crore for 2007-08 which excluded `12.88 crore on account of arrear dues on Circumstances and Property tax, rents, license fees from the tenants, licenses, etc. (*Appendix-1*). Out of total amount of `28.71 crore recoverable in 2007-08, `13.15 crore was recovered and the remaining `15.56 crore was still (December 2009) lying unrecovered for no reasons on record. The financial position of the ZPs suffered to this extent.

### 1.6 Overall financial position

As mentioned in paragraph 1.3, neither the data base on finances of the PRIs was created nor accounts were 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.

<sup>4</sup> Target was not fixed.

During 2008-09, records of 4,707 units of PRIs were test-checked in audit. The financial positions of audited units during last three years were as per the details brought out below:

( ` in crore)

Year	Number of PRIs test-checked	Opening balances	Funds received	Total funds available	Expenditure (per cent)	Closing balances
<b>Zila Panchayats</b>						
2005-06	51	191.55	462.20	653.75	324.35 (50)	329.40
2006-07	52	338.56	476.91	815.47	497.80 (61)	317.67
2007-08	52	319.41	589.80	909.21	484.00 (53)	425.21
<b>Kshetra Panchayats</b>						
2005-06	139	47.05	121.15	168.20	117.01 (70)	51.19
2006-07	139	51.19	160.57	211.76	151.53 (72)	60.23
2007-08	130	53.33	282.39	335.72	274.59 (82)	61.13
<b>Gram Panchayats</b>						
2005-06	2,274	20.57	92.00	112.57	75.75 (67)	36.82
2006-07	2,430 <sup>5</sup>	39.18	135.36	174.54	132.32 (76)	42.22
2007-08	4,525	87.28	376.92	464.20	346.73 (75)	117.47

An analysis of the table revealed that PRIs underutilized the funds. The major defaulters were the ZPs where ` 425.21 crore was lying unutilized at the end of March 2008. Due to underutilization, funds continued to accumulate. This 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>6</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 (UPDPC) Act, 1999.

<sup>5</sup> Financial position of 114 out of 2544 *Gram Panchayats* was not issued to the Department.

<sup>6</sup> Sections 63 and 86

It was noticed that such committees, constituted in April 2008 after a lapse of nine years of passing the Act, were actually made functional from December 2009. Development Plans envisaged for KPs and GPs as required in UPDPC, Act was not included in any of the District Development Plans in the ZPs test checked during 2009-10 (December 2009).

### **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>7</sup>. It was, however, noticed that this was not prepared in any of 4,525 GPs and 130 KPs test-checked during 2008-09 and works were executed on ad hoc basis.

### **1.9 Accounting arrangements**

(i) The Comptroller and Auditor General of India, on the recommendations of EFC, prescribed (2002) Budget and Accounting formats for all the three tiers of PRIs. Although, the Government accepted (March 2003) the formats but ZPs and KPs did not maintain their accounts in the above prescribed formats. Accounts of GPs were maintained in formats prescribed by C & AG through the Chartered Accountants. Test check of GPs records, however, revealed that their accounts were in arrear for two to five years due to delayed engagement of the Chartered Accountants and in several cases non - submission of records by the GPs to them when engaged.

(ii) As of August 2009, the accounts of 15,658 GPs for the year 2004-05, 29,025 GPs for the year 2005-06, 44,384 GPs for the year 2006-07, 50,342 for the year 2007-08 and 51,841 for the year 2008-09 were in

---

<sup>7</sup> Section 110 & 115

arrears. In test-check during 2005-2009, it was also noticed that KPs were not preparing their monthly/annual accounts. Thus, the accounts of the PRIs lacked transparency.

(iii) TFC observed that accurate information on the finances of the PRIs were not available at the State level and 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 PRIs. 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”.

(iv) Uttar Pradesh Zila Parishads and Kshetra Samities (Budget and General Accounts) Rules 1965<sup>8</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 that the test checked nine ZPs and 27 KPs had not reconciled the difference of Rs 6.15 crore and ` 9.77 crore respectively (*Appendix-2*) as on 31 March 2008 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 (CAO), Co-operative Societies and Panchayats is the primary auditor for all the three tiers of the PRIs.

The data made available by CAO, revealed that a large number of the PRI units remained unaudited<sup>9</sup> reportedly due to non submission of records by them during 2006-09 as per the details given below:

---

<sup>8</sup> Section 84 (2)

<sup>9</sup> Based on information furnished by Chief Audit Officer, Co-operative Societies and Panchayats.

Name of the PRIs	2006-07	2007-08	2008-09
	Arrear (per cent)	Arrear (per cent)	Arrear (per cent)
ZPs	42 (60)	30 (43)	48 (69)
KPs	144 (18)	27 (3)	90 (11)
GPs	7,177 (14)	11,006 (21)	18,490 (36)
<b>Total</b>	<b>7,363 (14)</b>	<b>11,063 (21)</b>	<b>18,628 (35)</b>

In view of a large number of unaudited PRIs, their financial data remained unauthenticated.

### **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 the Comptroller & Auditor General of India. Consequently, the 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. Accordingly, audit of PRIs were conducted and 12,191 Inspection Reports which contained 9,578 paragraphs were sent to the Chief Audit Officer during 2003-09 for pursuance. However, these remained un-replied. Further, suitable amendments in the State Acts/Rules were not made even after a lapse of eight years, as of June 2009.

(b) During 2008-09, 52 ZPs, 130 KPS and 4,525 GPs were test-checked and 1776 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 Offices, Director, Panchayati Raj and Chief Audit Officer, Co-operative Societies and Panchayats. However, the compliance of these paragraphs was awaited (December 2009).

## **1.12 Other points**

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

Second SFC constituted (February 2000) for the period 2001-2006, made 245 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. The Government accepted 133 recommendations in toto and 70 recommendations partially and did not accept 42 recommendations 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.

### **1.12.2 Lapse of TFC grant in ZPs**

As per TFC guidelines, the PRIs were required to present the bills to the treasury within the financial year for the grants released by the State Government to be transferred in their PLAs. In case of PRIs not having PLAs, cheques were issued by treasuries which were to be deposited by the PRIs in their bank accounts latest by the next month of their issue. However, ZP, Sultanpur and ZP, Faizabad did not present the requisite bills to concerned treasuries for the first installment of financial year 2007-08 to be transferred to their PLAs within the time schedule and hence the grant lapsed.

## **1.13 Conclusion**

PRIs did not follow the prescribed system of the budgeting and budgetary process and did not maintain accounting records in the prescribed formats, as a result, true and fair view of income and expenditure of the PRIs were not available. The grants were not utilized in a time bound manner to derive intended benefits. The arrears in audit by CAO rendered the financial data of PRIs unauthenticated. The data base 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 ten years of enacting the District Planning Committee Act, 1999 as a result their developmental activities could not be monitored at district level.

#### **1.14 Recommendations**

- The Government should ensure that database on finances is created at the district level as well as at the State level as per recommendations of the EFC and TFC.
- The 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 the 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.
- The Government should make PRIs accountable to the Chief Audit Officer for submission of records for audit and also to ensure compliance to audit observations with in a time bound manner.