

**PART – II PANCHAYATI RAJ INSTITUTIONS**

**CHAPTER – I**

**OVERVIEW ON FINANCES INCLUDING THE ACCOUNTING PROCEDURES OF THE PANCHAYATI RAJ INSTITUTIONS**

**1.1 Introduction**

A three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh Panchayati Raj Aivam Gram Swaraj Adhiniyam (Act), 1993. (MPPRGSA) which came into force from January 1994.

At present, there are 50 ZPs, 313 JPs and 23012 GPs in the state. The last general elections for the Gram Panchayats was held during 2009-10.

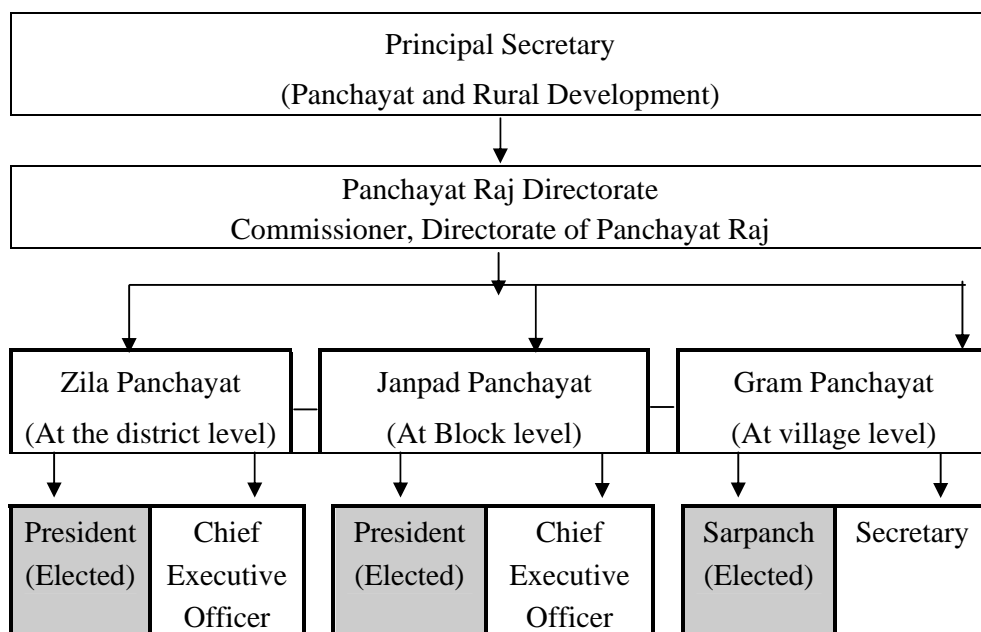
**1.2 Area and Population**

Total area (3,08,000 sq. km.) of the state was covered by 4.51 crore of rural population being 75 per cent of the total population of 6.03 crore as per 2001 census. Of this, 0.90 crore (15 per cent) and 1.21 crore (20 per cent) were Schedule Caste and Schedule Tribes respectively.

**1.3 Administrative arrangements**

All the PRIs are distinct legal authorities to discharge the functions devolved under the provisions of Acts and Rules subject to monitoring powers vested in state authorities provided therein. The organisational structure of governance at state, District, Block and Village level is given below.

**Organisational Chart of PRIs**



## **1.4 Accounting arrangements**

### **1.4.1 Annual Accounts**

As per section 72 of M.P. Panchayat Raj Aivam Gram Swaraj Adhiniyam, 1993 the Secretary of the Panchayat shall prepare the Annual Accounts and as prescribed in section 73 and place it before the General Administration Committee, for consideration and approval, by 15 March each year. During test check of records of ZP Ujjain (10 GPs), it was seen that no such Annual Accounts were prepared in the test checked GPs for the period 2006-07 to 2009-10. Identical situation exists in other GPs visited by audit.

### **1.4.2 Misclassification of grants released to the PRIs.**

Eleventh Finance Commission recommended the classification of the funds transferred to PRIs in proposed minor heads as:-

|    |  |     |
|----|--|-----|
| 1. | Zilla Parishads / District level Panchayats      | 196 |
| 2. | Block Panchayats / Intermediate level Panchayats | 197 |
| 3. | Gram Panchayats                                  | 198 |

The above changes would be effective from 1<sup>st</sup> April 2001.

During the scrutiny of budget and detailed appropriation account of State budget, it was observed that during 2009-10, the budgetary provision and expenditure was booked in only one Minor Head 198- Assistance to Gram Panchayats without specifying Zilla Panchayat / District level Panchayats and Intermediate level Panchayats i.e. Janpad Panchayats as a result amounts of funds available and spent during a financial year by each tier of PRIs was not readily available.

### **1.4.3 Amendment in the Act**

As per recommendations of the Eleventh Finance Commission (EFC), the Comptroller & Auditor General (C&AG) the India has been entrusted with the responsibility of supervision over the proper maintenance of accounts and their audit for all the three tiers/ levels of Panchayats. The State Government (November 2001) entrusted the responsibility of audit of accounts of Local Bodies to the Director/ Commissioner Local Fund Audit who shall work under the Technical Guidance and Supervision (TGS) of the C&AG. The State Government have already conveyed their acceptance for the technical supervision and control of CAG over proper maintenance of accounts of Local Bodies and the audit thereof. But PRIs' Acts were neither amended to empower the CAG nor positive response was received even after regular correspondence with the Panchayati Raj Directorate (PRD). The matter was discussed in the meeting (November 2008 and October 2010) held with Principal Secretary, Finance Department for inclusion of provision of TGS in concerning Act & Rules who assured that suitable action would be taken after consulting practices of other states.

## 1.5 Audit arrangements

The State Government had consented for audit of 20 percent of Local Bodies by Comptroller & Auditor General (C&AG) of India under his Technical Guidance and Supervision (TGS) in November 2001. However large number of local bodies fall within provision of section 14 of CAG's DPC Act. Accordingly the office of the Senior Deputy Accountant General Local Body Accounts and Audit is conducting audit of PRIs including units falling under TGS module.

## 1.6 Source of revenue

There were mainly two sources of funds for Local Bodies (i) Government grants and (ii) own revenues. Government grants comprise of (a) funds released by the State Government and Government of India (GOI) based on the recommendation of State Finance Commission (SFC)/ Central Finance Commission (b) GOI and State share transfer for various central sponsored / central and State sector schemes. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them.

## 1.7 Receipts and expenditure of PRIs

Funds (Share of tax revenue of the state, schemes and grants etc.) allocated to PRIs by the State Government through budget including GOI share of the schemes and grants recommended by central finance commission were as under:-

**(₹ in crore)**

| Sl. No. | Grants in aid |              |              |         |                                |         | Actual Expenditure |         |         | Excess (+)/ Saving (-) |
|---------|---------------|--------------|--------------|---------|--------------------------------|---------|--------------------|---------|---------|------------------------|
|         | Year          | Share of Tax | Scheme funds | Grant   | Pay & Allowance of Directorate | Total   | Revenue            | Capital | Total   |                        |
| 1.      | 2006-07       | 19.30        | 245.63       | 2455.10 | 0.37                           | 2720.40 | 2241.73            | 0.04    | 2241.77 | (-) 478.63             |
| 2.      | 2007-08       | 176.12       | 239.49       | 2823.72 | 0.06                           | 3239.39 | 2999.92            | 3.03    | 3002.95 | (-) 236.44             |
| 3.      | 2008-09       | 174.30       | 415.21       | 3391.58 | 6.39                           | 3987.48 | 3125.25            | 0.03    | 3125.28 | (-) 862.20             |
| 4.      | 2009-10       | 219.51       | 1990.11      | 2727.88 | 11.54                          | 4949.04 | 4038.19            | 5.08    | 4043.20 | (-) 905.84             |

Source:- Detailed appropriation accounts.

Inspite of increase in budget provisions by 82 percent during the year 2009-10 as compared to 2006-07, the PRIs could not spend the amount, resulting into substantial saving from 2006-07 to 2009-10. The details of receipts and expenditure there against in all PRIs were not being maintained at the Panchayati Raj Director (PRD) level and also at Panchayat & Rural Development Department level of the State. On being enquired, (October 2010) PRD replied (January 2011) that the same would be collected and furnished to audit.

### 1.7.1 Non preparation of draft development plan for the districts

As a tool of local self government – to consolidate the annual plan prepared by the Panchayats and Municipalities in the district and to prepare a draft development plan for the district, the District Planning Committees (DPC) were to be constituted as per MP Zila Yojna Samiti Adhiniyam 1995. The

committee for each districts would consist of the number as specified in the schedule i.e. between 15 to 25 for each districts. It was noticed that though the DPC was constituted in Ujjain district but the draft development plan including grass root level i.e. Gram Panchayat (GPs) level annual action plan for the district was not prepared for the period 2007-08 to 2009-10. Therefore equal distribution of resources upto GP level could not be assured. Preparation of decentralized annual action plan in respect of three tiers of Panchayati Raj Institution to ensure equal distribution of resources is needed.

### **1.7.2 State Finance Commission (SFC)**

The FD accepted (March 2005) the recommendation of second SFC for devolution of 2.93 per cent of 90 per cent of the state's own tax revenue to PRIs. The position of grants released to PRIs through state budget during 2006-07 to 2009-10 were as under:

(₹ in crore)

| Year    | Amount of own tax revenue of the state |                              | Amount of share of own tax revenue to be allocated as per prescribed percentage (i.e. 2.93%) | Amount of share of own tax revenue (SFC grants) released to PRIs | Short fall (with percentage) |
|---------|--|------------------------------|--|--|------------------------------|
|         | Total                                  | Net (After deduction of 10%) |  |  |                              |
| 1       | 2                                      | 3                            | 4  | 5  | 6                            |
| 2006-07 | 10473                                  | 9425.70                      | 276.13   | 208.70   | 67.43 (23)                   |
| 2007-08 | 12018                                  | 10816.20                     | 316.91   | 243.00   | 73.91 (23)                   |
| 2008-09 | 13614                                  | 12252.60                     | 359.00   | 226.00   | 133 (37)                     |
| 2009-10 | 17273                                  | 15545.70                     | 455.49   | 179.50   | 275.99 (61)                  |

Source:- Detailed appropriation accounts.

The devolution of funds as per recommendations of second SFC were meant to cover the tasks of basic services, vis-à-vis development of water supply and sanitation, construction & repair of school buildings, health centres / maternity homes, approach roads, Gram Panchayat Buildings, etc. The shortfall in release of funds to PRIs from 2006-07 to 2009-10 resulted in less availability of funds with them for the purpose as envisaged by SFC.

### **1.8 Position of Outstanding audit objections**

According to TGS arrangement, the DLFA would pursue settlement/ action taken on the audit objections raised by AG in the same manner as he would pursue his own reports/audit objections.

As of March 2009, the number of outstanding audit objections of PRIs included in the Inspection Reports (IRs) of DLFA was 94703. The number of outstanding objections of AG's Inspection Reports was 12407 as of March 2010. Detailed of outstanding audit objections in the IRs of AG reported to DLFA as of March 2010 were not made available by the DLFA. Details of outstanding objections were as under:

**(A) Outstanding audit objections of DLFA**

| Sl. No. | Financial Year | PRI                                       |               |                           |                               |
|---------|----------------|---|---------------|---------------------------|-------------------------------|
|         |                | Total No. of outstanding audit objections | Addition      | No. of objections settled | No. of objections Outstanding |
| 1.      | 2006-07        | 87601                                     | 7250          | 12494                     | 82357                         |
| 2.      | 2007-08        | 82357                                     | 4502          | 10416                     | 76443                         |
| 3.      | 2008-09        | 76443                                     | 21151         | 2891                      | 94703                         |
| 4.      | 2009-10        | 94703                                     | Not Available | Not Available             | Not Available                 |

**(B) Outstanding audit objections of AGs Inspection Reports.**

| Sl. No. | Financial Year | PRI                                       |          |                           |                               |
|---------|----------------|---|----------|---------------------------|-------------------------------|
|         |                | Total No. of outstanding audit objections | Addition | No. of objections settled | No. of objections Outstanding |
| 1.      | 2006-07        | 2824                                      | 3029     | Nil                       | 5853                          |
| 2.      | 2007-08        | 5853                                      | 3877     | 07                        | 9723                          |
| 3.      | 2008-09        | 9723                                      | 1544     | 31                        | 11236                         |
| 4.      | 2009-10        | 11236                                     | 1171     | Nil                       | 12407                         |

Even after vigorous pursuance with the Finance Department, no audit committee was constituted in the State to discuss and settle the outstanding objections resulting in large number of audit objections being left unsettled.

**1.9 Outstanding advances against individuals/executing agencies**

Rule 49 of Madhya Pradesh Janpad Panchayat (Lekha Niyam), 1999 provides that advances for petty office expenses given to individuals/ executing agency should be got adjusted immediately after incurring such expenditure, failing which the entire amount of advance should be recovered from the next salary or sums payable to them.

Test check of records of seven PRIs revealed that in contravention/violation of the above provision, a sum of ₹ 34.66 lakh was outstanding against individuals /executing agencies ranging from three to five years and more as shown in **Appendix -XIV**.

**1.10 Bank-reconciliation statement not prepared**

Rules 25-26 of Madhya Pradesh, Janpad Panchayat Lekha Niyam 1999, provide that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. However, it was noticed that the difference of cash balance of ₹ 1.43 crore between Cashbook and Bank statement at the close of the year (2009-10) was not reconciled by seven PRIs as shown in the **Appendix -XV**. Due to non-reconciliation of cash balance, possibility of embezzlement of funds could not be ruled out and the authenticity of cash balance of PRIs in the cashbook also remained doubtful in the absence of reconciliation with bank statement.

## 1.11 Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)

### 1.11.1 Unrealistic demand for funds

Under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS), the State Government should formulate its Annual Work Plan and Budget proposal (AWPB) for submission to the GOI. The AWPB will also report the use of the previous fund received by the state. The actual release of funds to state Government will depend on its actual utilization of funds released previously.

Scrutiny of financial Performance/ monthly progress reports of MNREGS funds submitted to the GOI, revealed that the expenditure from the available funds was 73 percent in 2008-09 and 60 percent in 2009-10 as depicted in the table below:-

(₹ in lakh)

| Year         | OB as on 31 March | Release of last year received during the year | Funds received during the year (GOI+ State share) | Total                        | Expenditure during year/ Percentage | Unspent Balance at the end of financial year as per |                              |
|--------------|-------------------|---|---|------------------------------|-------------------------------------|---|------------------------------|
|              |                   |   |   |                              |                                     | Financial performance / monthly progress report     | Utilisation Certificate (UC) |
| 2008-09      | 46528.71          |   |   | 484432.33                    | 355496.21                           | 128936.12   | 149247.78                    |
| (i) Central  |                   | 1002.00                                       | 383026.75   |                              | 73%                                 |   |                              |
| (ii) State   |                   | 411.11  | 50799.87  |                              |                                     |   |                              |
| (iii) Misc.  |                   | --  | 2663.89   |                              |                                     |   |                              |
| <b>Total</b> | <b>46528.71</b>   | <b>1413.11</b>                                | <b>436490.51</b>                                  | <b>484432.33</b>             | <b>355496.21</b>                    | <b>128936.12</b>                                    | <b>149247.78</b>             |
| 2009-10      |                   |   |   | 385748.91                    | 232521.36                           | 153227.55 <sup>#</sup>                              | 109369.89                    |
| (i) Central  | 149247.78         | 24221.09                                      | 190366.46   |                              | 60%                                 |   |                              |
| (ii) State   |                   | 2691.23 <sup>#</sup>                          | 20640.90  |                              |                                     |   |                              |
| (iii) Misc.  |                   | --  | 1272.68   |                              |                                     |   |                              |
| <b>Total</b> | <b>149247.78</b>  | <b>26912.32</b>                               | <b>212280.04</b>                                  | <b>385748.91<sup>#</sup></b> | <b>232521.36</b>                    | <b>153227.55</b>                                    | <b>109369.89</b>             |

<sup>#</sup> Differ by ₹ 2691.23 lakh, as this amount was not included in total availability of funds.

It is evident from the above table that the closing balance of 2008-09, ₹ 1289.36 crore (₹ 1492.47 crore as per UC) was not taken into account while formulating AWPB for the year 2009-10, resulting unspent balance of ₹ 1532.27 crore (₹ 1093.70 crore as per UC) at the end of the year 2009-10 which was parked in saving bank accounts of the Agencies. It can also be seen from the above table that (i) funds of ₹ 2691.23 lakh released as state share in 2008-09 (Advance) was not taken in to account in the total available funds during the 2009-10 and (ii) unspent balance of ₹ 128936.12 lakh of the year 2008-09 was taken ₹ 149247.78 lakh as opening balance for 2009-10.

On being pointed out in audit, the Chief Executive Officer (CEO), MP State Employment Guarantee Council replied (January 2011) that, the closing balance of the current year was not available at the time of preparation of labour budget for the succeeding year.

The reply of the CEO is not acceptable, balances of the scheme funds should have been monitored regularly through Monthly Financial Progress Reports and the labour budget should also be prepared after assessing the expected savings at the end of the year.

### **1.11.2 Adoption of defective accounts**

As per General Financial Rules, the annual accounts prepared by Chartered Accountant should be checked by the departmental authorities before final adoption.

Scrutiny of annual accounts prepared by CA for the funds of MNREGS and for the year 2007-08 and 2008-09 at Zila Panchayat and Janapad Panchayat, Ujjain, it was noticed that the closing balance of the pervious year was reduced in the opening balance of the succeeding year as detailed below:-

(Amount in ₹)

| No. | Scheme                           | Year    | Closing balance amount | Year    | Opening balance amount | Short carry forward |
|-----|----------------------------------|---------|------------------------|---------|------------------------|---------------------|
| 1.  | MPNREGS Zila Panchayat, Ujjain   | 2007-08 | 1,32,14,268            | 2008-09 | 1,18,87,762            | 13,26,506           |
| 2.  | MPNREGS Janpad Panchayat, Ujjain | 2007-08 | 11,91,058              | 2008-09 | 11,01,058              | 90,000              |

On being pointed out in audit the department accepted the facts and asked about the factual position of balances from the concerned Chartered Accountant (CA) (February 2011). The reply of CA was awaited.

### **1.11.3 Non recording of assets created from developmental grants**

Developmental grants were provided to PRIs by GOI and State Government under various schemes such as MPNREGS, Total Sanitation Campaign, (TSC) etc., to create Infrastructure for Basic Services and assets.

Scrutiny of Accounts and Audit Reports of CA on the above schemes, it was observed that value of assets created from the schemes grants were not shown in Balance Sheet of concerned scheme for the year 2007-08 to 2009-10. The amount utilized by the Janpad Panchayats, Gram Panchayats and line departments was shown as expenditure in the Accounts. The asset registers were also not found maintained in JPs/GPs.

On being pointed out in audit (January 2011), the CEO Zila Panchayat Ujjain replied that there was no instruction from the government regarding valuation of assets in the balance sheet for the assets created at Gram Panchayat level. The reply of the CEO is not acceptable as the balance sheet authenticate the value of assets created moreover, the maintenance of asset registers at JP/GP level was a basic requirement.

#### **1.11.4 Mixing up of GOI and State share**

According to Government Accounting Rules, the funds of Central and State Government should be accounted for separately. Scrutiny of financial performance reports of MNREGS sent to GOI, it was noticed that the unspent balance of MNREGS fund consisting GOI and state share was ₹ 465.28 crore in 2007-08; ₹ 1492.47 crore in 2008-09 and ₹ 1532.27 crore in 2009-10 in the closing balances which were not accounted for separately as GOI and state funds.

The CEO, MP State Employment Guarantee Council also accepted the facts (January 2011).

#### **1.11.5 Non-refund of unspent balances of closed/non-operational schemes**

As per Government of M.P., Panchayat & Rural Development Department order, dated 29.3.2008, the Sampooran Gramin Rojgar Yojna (SGRY) was disbanded. The balance of fund at the end of March 2008 was to be transferred to the MNREGS and no expenditure was authorised after 31.3.2008.

Scrutiny of Annual Accounts of MNREGS of Zila Panchayat, Ujjain, it was noticed that the balance of SGRY ₹ 4,22,31,654/- was not transferred to MNREGS accounts on 31 March 2008. Only (₹ 2,20,18,623/- were transferred into the accounts till March 2010 and ₹ 2,20,13,031/- was still lying idle in the accounts of closed scheme (February 2011).

#### **1.12 Conclusion**

Annual Accounts were not prepared by the PRI regularly. Details of receipts and expenditure of PRIs were not compiled at the State level. Approval of PAG on audit plan was not obtained by DLFA as envisaged under TGS module. The State Government has not formed a State Legislature Committee for discussion of CAG's Audit Reports on Local Bodies and no audit committee was formed for settlement of outstanding audit paragraphs of AG and DLFA. MNREGS accounts were also not maintained properly. The assets created under the schemes were not recorded in GPs.