

## CHAPTER – I

### AN OVERVIEW ON FINANCE AND ACCOUNTS OF THE PANCHAYATI RAJ INSTITUTIONS

#### 1.1 Introduction

Panchayati Raj Institutions (PRIs) came in to existence in Orissa from 1948 with enactment of Orissa Gram Panchayat Acts 1948. Subsequently, Orissa Panchayat Samiti Act and Zilla Parishat Act were enacted in 1959 and 1991 respectively, setting up three tier PRIs in the State. All these Acts were amended in 1993 and 1994<sup>1</sup> in conformity with the 73<sup>rd</sup> Constitutional Amendment Act 1992 empowering the PRIs to function as institutions of self Government so as to accelerate economic development and ensure social justice in rural areas.

#### 1.2 Organizational Set up

All the three tiers of PRIs function under the administrative control of the Panchayati Raj (PR) Department headed by the Principal Secretary who is assisted by the Director (PR) and the Director (Special Projects) at the State level.

Each of the 30 districts of the State has a Zilla Parishad(ZP). The ZP is managed by an elected body headed by a President, who is elected from among the elected representatives of the ZP. The District Collector acts as the ex-officio Chief Executive Officer (CEO) of the ZP while the Project Director of Concerned District Rural Development Agency acts as the ex-officio Executive Officer (EO) for discharging day-to-day administrative functions of the ZP.

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

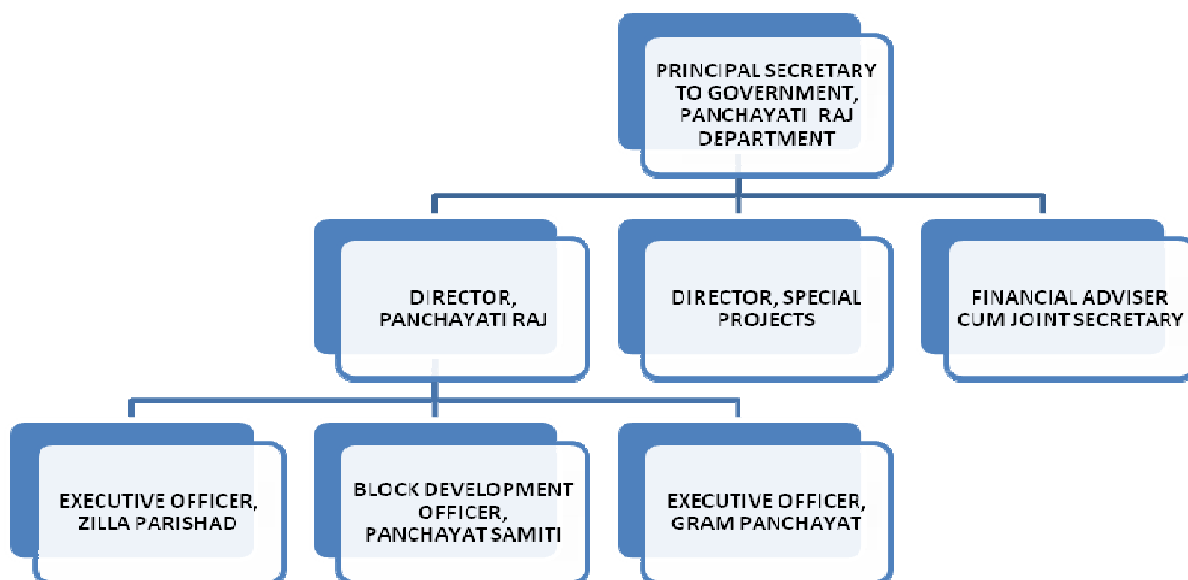
At the Gram Panchayat (GP) level, the elected members headed by a Sarpanch constitute the GP. The State Government has declared the Village Level Worker (VLW) as the Panchayat Executive Officer and entrusted the general superintendence and overall control of the GP who discharges his duties under the supervision of the Block Development Officer (BDO).

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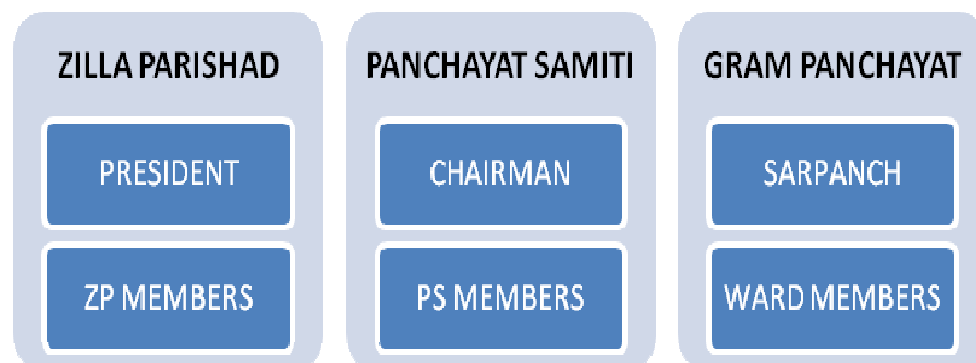
<sup>1</sup> ZP Act 1991 of Orissa amended in 1993. Orissa Gram Panchayat Act 1948 /1964 and Orissa Panchayat Samiti Act 1959 amended in 1994

As of March 2010, 30 ZPs, 314 PSs and 6234 GPs were functioning in Orissa. Election to the PRIs was last conducted in February 2007.

The organizational set-up of the PRIs is indicated below.



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



### 1.3 Functioning of PRIs

The PRIs were required to execute various functions entrusted to them through seven Standing Committees, to be constituted for the proposes viz,

- Planning, Finance, Anti- poverty Programme and Co-ordination,
- Agriculture, Animal Husbandry, Soil Conservation, Horticulture, etc.
- Works, Irrigation, Electricity, Water Supply, etc.
- Health, Social Welfare, etc.
- Public Distribution System, Welfare of the Weaker Section, etc.
- Handicrafts, Cottage Industry, Khadi and Village Industries, etc.
- Education, Sports and Culture.

The overall monitoring and review of the development programmes are conducted at the state level by the State Level Vigilance & Monitoring Committee (SLVMC) and at the district level by the District Vigilance and Monitoring Committees (DVMC). The SLVMC has been constituted under the chairmanship of the Honourable Minister, Rural Development with three Co-Chairman and twenty nine members. In case of DVMC, the Honorable Member of Parliament is the Chairman, with District Collector as the Secretary and all district level officers as members. The DVMC has to meet once in every quarter.

### 1.4 Sources of Funds

The main sources of income of PRIs in the State are funds released by Government of India (GOI) under various Centrally Sponsored Plan Schemes (CSP) viz NREGS, BRGF, IAY etc., grants received from State Government as per the recommendations of State Finance Commission, grants received as per Central Financial Commission recommendations, funds received under State sponsored schemes like Biju KBK, GGY etc. In addition PRIs are also mobilizing resources from own sources such as taxes, rents, license fee etc.

The receipt and expenditure position of the PRIs for the last three years are as follows.

(Rupees in crore)

	Opening Balance	Receipt of Grants by the PRIs	Total funds available	Expenditure	Balance
2007-08	288.33	1653.77	1942.11	1478.09	464.02
2008-09	596.34	2606.88	3203.23	1771.70	1431.52
2009-10	1385.66	2188.82	3574.49	2738.78	835.71

### **1.5 Accounts**

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

In GPs, the Annual Accounts are to be prepared in formats prescribed in Rule 159 of the GP Accounting Rules. However, the GPs are not preparing the Annual Accounts in the said formats. The Government of Orissa has not adopted the new formats recommended by CAG for GPs (May 2011).

In respect of PS, the new format prescribed by the CAG, has been adopted by the Government from April 2004. However, majority of the PSs in the State are not preparing their Annual Accounts in the prescribed formats. However, Scheme wise trial balance is maintained in computerized environment.

In ZPs, neither the new formats prescribed by CAG have been adopted nor the specific formats prescribed by the Government for the preparation of the Annual Accounts of the ZP. Thus, Annual Accounts are not being prepared by ZPs. . Excepting salary component and drawal of State share of centrally sponsored schemes, all other activities like management of scheme funds, implementation of schemes etc are still done by the DRDAs. The ZP, however, approves the Annual Action plans under MGNREGS and monitors implementation of all rural sector programmes in the district.

### **1.6 Audit arrangements**

The Examiner Local Fund Audit (ELFA) is the Statutory Auditor of PRIs in the State. The CAG provides Technical Guidance and Supervision (TGS) under Section 20(I) of CAG's (DPC) Act, 1971 for proper maintenance of accounts and audit of PRIs. The ELFA conducts audit of PSs and GPs through 13 District Audit Offices.

The arrear position in respect of audit by ELFA is given in the following table.

Year	Total number of PRIs planned for audit		Total number of PRIs Audited		Shortfall		Total Shortfall
	Gram Panchayats	Panchayat Samitis	Gram Panchayats	Panchayat Samitis	Gram Panchayats	Panchayat Samitis	
2009-10	2777	205	2522	198	255	7	263

Number of accounting years in arrears could not, however, furnished by the ELFA. To reduce the arrears in audit of GPs, the Government / ELFA engaged (September 2010) the Institute of Public Auditors of India (IPAI) for audit of the accounts of 2009-10 of 2902 GPs.

### **1.6.2 C.A.G Audit**

The audit of PRIs is being conducted by CAG under section 14(1) & 20 (I) of CAG (DPC) Act, 1971 and the audit of the accounts of 23 ZPs, 270 PSs and 941 GPs were conducted during the year 2009-10. Inspection reports on GPs, after issue by Sr DAG (LB A&A) Orissa are pursued till settlement by ELFA while those of PS and ZPs are pursued by the office of Senior DAG (LB A&A), Orissa.

### **1.7 Pending Inspection Report/Paragraphs**

**1.7.1** During 2009-10, 5785 paragraphs of 156 Inspection Report was issued by the DLFA and all the 5785 paragraphs were outstanding as on 31 March 2010 due to non-compliance. This needs aggressive pursuance to get the proper compliance for settlement of the audit paragraphs.

**1.7.2** The Sr. DAG (LBA&A), Orissa issued 2082 Inspection Reports on PSs and ZPs up to March 2010 and 18595 audit paras were pending for settlement for want of suitable compliances from the units. However, 613 paras were settled during 2009-10 through spot settlement by the field parties during the course of their inspection. As of March 2010, 17982 paragraphs and 2082 Inspection Reports remained outstanding due to non-compliance.

### **1.8 Annual Technical Inspection Report**

The Office of the Senior Deputy Accountant General (Local Bodies Audit and Accounts) under the administrative control of Principal Accountant General (Civil Audit), Orissa has issued four Annual Technical Inspection Reports on Local Bodies pertaining to the years 2005-06, 2006-07, 2007-08 and 2008-09 covering major audit findings of transaction audit on PRIs to the State Government. District Audit Monitoring Committee (DAMC) has been constituted in May 2009 to review the outstanding paragraphs. One meeting of DAMCs of one District (Puri) was held (November 2010) to review the pending paragraph of these ATIRs relating to PRIs as of April 2011.

### **1.9 Internal Audit**

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

### **1.10 District Planning Committee**

The State Government enacted the Orissa District Planning Committee (DPC) Act, 1998 for setting up of District Planning Committees to consolidate the plans submitted by the PRIs and Urban Local Bodies and prepare integrated draft development plan for the district as a whole. The Committee was also assigned the powers to review the implementation of the developmental programmes by the Local Bodies (LBs). Elected members of PRIs and ULBs in the district were to fill up 80 *per cent* members of the committee and the rest 20 *per cent* members were to be nominated by the Government. The Draft District Development Plan was required to be forwarded by the Chairperson of the DPCs to the State Government for approval. Despite the formation of the DPCs since 2001-02, the role is limited to approval of Annual Plans of BRGF. Though the Government notified (June 2010) constitution of District Planning and Monitoring Units (DPMUs) to act as the secretariat of the DPC, yet the DPMUs were not made functional due to absence of technical support teams and secretariat support staff for monitoring and implementation of plans.

### **1.11 Release of funds on the recommendations of the Finance Commission**

The Twelfth Finance Commission had made provision for yearly grants of ₹ 80.30 crore to the PRIs of the State for carrying out operation and maintenance of works relating to water supply and sanitation. The same was distributed every year to the Zila Parishads, Panchayat Samitis and Gram Panchayats in the ratio 2:6:92.

### **1.12 Comments on Accounts**

#### *1.12.1 Non-utilization of grants*

The total funds received vis-a-vis the expenditure incurred by the 25 test checked PSs for the year 2009-10 were as under: -

*(Rupees in crore)*

<b>Number of PSs</b>	<b>Total availability of fund during 2009-10(including OB as on 01-04-2009)</b>	<b>Expenditure made during 2009-10</b>	<b>Balance</b>	<b>Percentage of utilization</b>
25	360.26	219.53	140.73	60.94

Test check of records of 25 PSs revealed that out of available balance of ₹ 360.26 crore during 2009-10, ₹219.53 crore was utilized during 2009-10 and the spending efficiency was only 60.94 *per cent* (**Appendix-1.1**). This indicated poor monitoring and low spending efficiency by these PRIs.

This being pointed out, concerned BDOs stated that unutilized funds would be utilized in due course.

### 1.13 Non preparation of Budget Estimates

As per Rule 98(1) of the Gram Panchayat Act and Rule 24(1) of the Panchayat Samiti Act, the GPs and PSs have to prepare budget estimates for each year showing the probable receipts and expenditures and place the same before the Grama Sabha and Panchayat Samiti respectively for their consideration and approval.

Test check of records in 15 GPs revealed that none of the GPs had prepared the budget estimates though ₹ 5.30 crore<sup>2</sup> was spent by these GPs respectively during 2009-10. The State Government is releasing funds based on Annual Action plan submitted by the PRIs and not on the Budget Estimates, and the expenditures of the PRIs are not subjected to local budgetary control.

### 1.14 Deficiencies in the maintenance of Cash Books

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

- Periodical as well as surprise physical verification of cash was not conducted.
- Due to non-conduct of bank reconciliation there was huge discrepancy between the cash book and pass book balances.
- A consolidated Cash Book showing the overall receipt and disbursement of cash of each PS is not maintained despite operation of more than one cash book.
- Monthly analysis of closing cash balances was not made.
- Interest earned in the Bank Account was not regularly accounted for in the Cash Book with reference to entries made in bank pass book.

### 1.15 Recommendation

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

<sup>2</sup> (1) Badapalasa-₹16.47 lakh, (2) Badakumuli-₹82.17 lakh, (3) Baghasiuni-₹97.12 lakh,(4) Chandanpur-₹9.94 lakh, (5) Chatahandi-₹89.37 lakh, (6) Dimbo-₹26.96 lakh, (7)Raghunathpur-₹33.69 lakh, (8) Janardanpur-₹17.75 lakh, (9) Kanrikala-₹21.78 lakh, (10) Lankaput-₹38.21 lakh, (11) Mahadeiput-₹52.14 lakh, (12) Padampur-₹3.27 lakh, (13) Sankiri-₹4.72 lakh, (14) Shyamsundarpur-₹1.37 lakh and (15) Sarat-₹35.97 lakh.

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