

## **PART – II PANCHAYATI RAJ INSTITUTIONS**

### **CHAPTER – I**

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

##### **1.1 Introduction**

To promote greater autonomy at the grass root level and to involve people in identification and implementation of development programmes involving Gram Sabhas, the 73<sup>rd</sup> Constitutional Amendment Act, 1992 was promulgated. According to the provisions of Article 243 G of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibility upon Panchayats at the appropriate level, subject to such conditions as may be specified therein with respect to:-

- (a) The preparation of plans for economic development and social justice;
- (b) The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule<sup>21</sup>;

Similarly, according to the provisions of Article 243 H of the Constitution, the legislature of state may:-

- (a) Authorise a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits,
- (b) Assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits,
- (c) Provide for making such Grants in Aid to the Panchayats from the Consolidated Fund of the State and
- (d) Provide for the constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such money there from as may be specified in the Law.

Consequently, a three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh through Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993.

- Zila Panchayat (ZP) for a district,
- Janpad Panchayat (JP) for a block and
- Gram Panchayat (GP) for a village.

At present there are 50 ZPs, 313 JPs and 23010 GPs in the State.

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<sup>21</sup> Article 243 G and H of the Constitution (Seventy - third Amendment) Act. 1992.

The basic information about the State of Madhya Pradesh is given below:

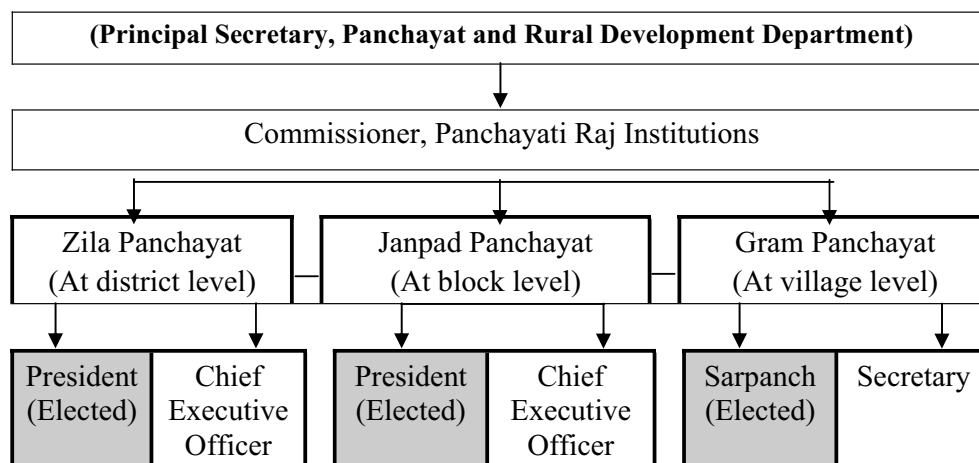
	Unit	State figure	All India figures
Population	Crore	7.26	121.02
Share in Country's population	<i>per cent</i>	6.00	--
Rural population	Crore	5.25	83.31
Share of Rural Population	<i>per cent</i>	72.00	68.84
Population Density of State	per sq. Km.	236.00	382.00
Literacy rate of State	<i>per cent</i>	71.00	74.00
Sex ratio of State	Ratio	930/1000	940/1000

Source: provisional census 2011

## 1.2 Administrative arrangements

As per Chapter 3 of the Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993, 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



## 1.3 Roles and responsibilities of three tiers of PRI

Sl. No.	PRIs	Responsibilities
1.	Zila Panchayat	To co-ordinate, evaluate and monitor activities and guide the Janpad Panchayat and Gram Panchayat
2.	Janpad Panchayat	To implement, execute, supervise, monitor and manage works, scheme programmes and project through Gram Panchayat or through executing agencies, transferred by the State Government to Panchayats.
3.	Gram Panchayat	To ensure the execution of schemes, works projects entrusted to it by any law and those assigned to it by the Central or State Government or Zilla Panchayat or Janpad Panchayat.

<b>Standing committees of Zila Panchayat</b>	<b>Standing committees of Janpad Panchayat</b>	<b>Standing committees of Gram Panchayat</b>
<ul style="list-style-type: none"> <li>a. General Administration</li> <li>b. Agriculture Committee</li> <li>c. Education Committee</li> <li>d. Communication and Works Committee</li> <li>e. Cooperation and Industries Committee</li> </ul>	<ul style="list-style-type: none"> <li>a. General Administration</li> <li>b. Agriculture Committee</li> <li>c. Education Committee</li> <li>d. Communication and Works Committee</li> <li>e. Cooperation and Industries Committee</li> </ul>	<ul style="list-style-type: none"> <li>a. General Administration</li> <li>b. Construction and Development Committee</li> <li>c. Education, health and social welfare committee</li> </ul>

#### **1.4 Audit coverage**

Out of 23,373 PRIs (50 ZPs, 313 JPs and 23010 GPs) in the State, records of 454 PRIs (12 ZPs, 97 JPs and 345 GPs) were scrutinised during the year 2010-11.

#### **1.5 Maintenance of Accounts in formats prescribed by the C&AG**

The EFC recommended that C&AG should prescribe the formats for the preparation of budgets and for keeping of accounts for the local bodies. Similarly, the TFC recommended that all State should adopt an accounting framework and codification pattern consistent with the Model Panchayat Accounting System (MAS) which was developed by the C&AG and Ministry of Panchayati Raj and was to be adopted from 1 April 2010.

During test check of records of 12 ZP, 97 JP and 345 GPs, it was observed that none of the PRIs at different levels kept the accounts in the prescribed format during 2010-11.

On being pointed out, the Commissioner, PRI replied (August 2012) that the maintenance of accounts in prescribed format is under process in 2011-12.

#### **1.6 Audit arrangements**

As per recommendations of the Eleventh Finance Commission, audit by DLFA has been brought (November 2001) under the TG&S of the C&AG. Accordingly, the audit of 12 ZPs, 97 JPs and 345 GPs as shown **Appendix -IX** was conducted during 2010-11 and Inspection Reports were sent to DLFA for providing Technical Guidance.

Para 10.121 of the recommendations of TFC envisages that State Government must put in place an audit system for all local bodies (all tiers of PRIs). The C&AG must be given TG&S for all the local bodies in the state at every tier and his Annual Technical Inspection Report as well as the Annual Report of Director/Commissioner of Local Fund Audit (DLFA) must be placed before the State Legislature. Accordingly, the MP Panchayat Raj Avam Gram Swaraj Adhiniyam 1993 was amended in July 2011. The first Annual Report of DLFA is under preparation (November 2012).

## 1.7 Source of revenue

As per section 63 & 64 there are mainly two sources of revenue for local bodies (i) Government grants and (ii) own revenues. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them. Government grants comprise of funds released by the State Government and the GOI on the recommendation of SFC, Central Finance Commission and State and the GOI share for implementation of various schemes.

## 1.8 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's share of the schemes and grants recommended by Central Finance Commission were as follows:-

(₹ in crore)

Sl. No.	Grants in aid				Actual Expenditure			Saving (5-8)
	Year	Revenue	Capital	Total	Revenue	Capital	Total	
1	2	3	4	5	6	7	8	9
1.	2006-07	2719.84	5.76	2725.60	2241.23	0.04	2241.27	484.43
2.	2007-08	3221.86	3.04	3224.90	2996.51	3.03	2999.54	225.46
3.	2008-09	3985.44	2.04	3987.48	3125.25	0.03	3125.28	862.20
4.	2009-10	4942.02	7.02	4949.04	4038.20	5.01	4043.21	905.83
5.	2010-11	6585.74	231.40	6817.14	5678.75	198.65	5877.40	939.74

(Source:- Compiled from Appropriation Accounts )

The details of receipts and expenditure of all PRIs were not being maintained at the Panchayati Raj Directorate (PRD) level.

On being pointed out, the Commissioner, Panchayati Raj replied in October 2011 and November 2012 that the information regarding collection of taxes by ZPs, JPs and GPs was not available at the Directorate.

## 1.9 Devolution of SFC Grants

Article 243 W of the Constitution made it mandatory for the State Government to constitute a State Finance Commission within a year from the commencement of the Constitutional Amendment Act and thereafter on expiry of every five year to review the financial condition of the ULBs and to make recommendations to the Governor for devolution of funds.

The recommendations of Third SFC were adopted in February 2010 by the State Government. The Third SFC recommended that four *per cent* of the divisible tax revenue<sup>22</sup> of previous year of State Government should be devolved to PRIs which would be collected in the divisible fund, through which the share would be devolved to GPs as per classification on the basis of population and their own tax collection criteria.

<sup>22</sup> *Divisible Tax revenue means total own tax revenue minus ten per cent of expenditure for collection of taxes and deduction of assigned revenue to PRIs and ULBs.*

The position of funds was to be devolved and funds actually devolved by the State Government during 2010-11 to PRIs is as given below:-

(₹ in crore)				
Year	Own Tax Revenue of State (Divisible Fund)	Funds to be devolved as per Third SFC recommendations	Funds devolved to PRIs by State Government	Short Release
2010-11	13960.22	558.41	490.94	67.47

(Source: Finance Accounts 2009-10 and information provided by PRI)

It can be seen from the above table that State Government did not devolve the funds (₹ 67.47 crore) according to the recommendations of Third SFC to PRIs.

### 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 balances of Bank Accounts is required to be conducted every month.

It was noticed that the difference of cash balance of ₹ 25.10 crore between Cash Book and Bank statement at the close of the year (2010-11) was not reconciled by four PRIs<sup>23</sup> as shown in the **Appendix – X** which was contrary to the rules.

### 1.11 Status of outstanding audit objections

According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the Inspection Reports of the Accountant General (Audit) as if these are his own reports.

The status of outstanding audit objections of PRIs included in the AG's Inspection Reports is as under:-

S.No	Financial Year	PRIs			
		Opening balance of outstanding audit objection	Addition	No of objections settled	No of objection 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
5	2010-11	12407	1621	465	13563

(Source: Monthly Arrear Report of LB Wing)

Despite regular correspondence with DLFA, no active pursuance was made by DLFA for settlement of outstanding objections.

<sup>23</sup> ZP Chindwara, ZP Ujjain, JP Panagar (Jabalpur) and JP Khaniyadhana.

## **1.12 Conclusion**

Annual Accounts were not prepared by the PRIs in prescribed formats. Details of receipts and expenditure of PRIs were not compiled at the PRD level. The State Government did not devolve the funds according to recommendations of Third SFC. Active pursuance was not made by DLFA for settlement of outstanding objections.