

CHAPTER-I

Overview of Panchayati Raj Institutions (PRIs)

1.1 Introduction

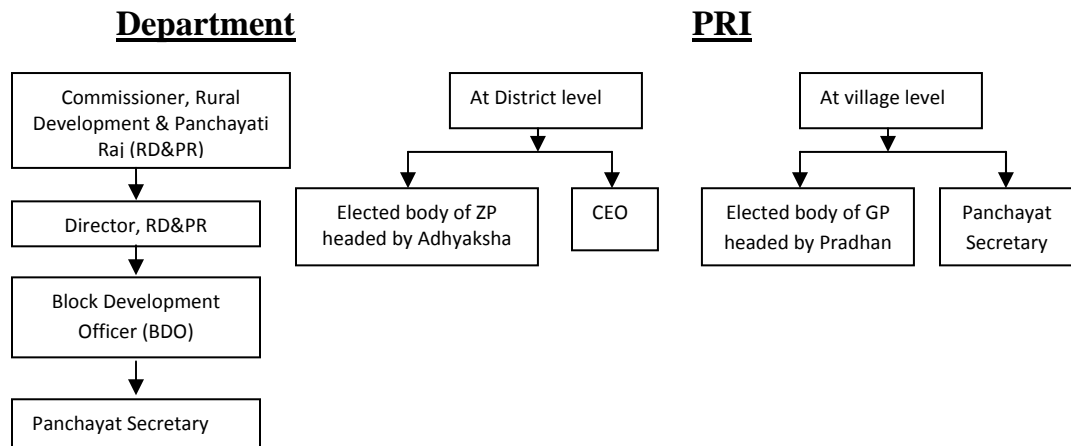
In keeping with the 73rd Constitutional Amendment Act, 1992, the Manipur Panchayati Raj Act, 1994 was enacted to establish a two-tier Panchayati Raj Institutions (PRIs) at the village and district levels with elected bodies of Gram Panchayat (GP) at the village level and Zilla Parishad (ZP) at the district level. The geographical area of the State of Manipur is 22,327 sq. kms, wherein rural area covers 22,188.17 sq. kms. As per 2001 census, the total population of the State was 22.94 lakh of which the rural population constituted 17.18 lakh. The State has nine districts altogether consisting of five hill districts and four valley districts. The PRIs cover the four valley districts only having a population of 8.5 lakh. In the hill districts, Autonomous District Councils are constituted under the Fifth Schedule of the Constitution of India.

The two tier Panchayat system envisaged in the Manipur Panchayati Raj Act, 1994 came into force with effect from 24 June 1994. The first general election for the ZPs & GPs was held in 1997. Since then, general elections for the Panchayats have continued to be held every five years and the last election was held in September 2007.

1.2 Organizational set-up

There are four ZPs and 165 GPs in the State of Manipur. At the State level, the Rural Development and Panchayati Raj Department (RD&PR) of the State Government is responsible for their effective functioning.

The organogram given below shows organizational set-up of the Department and the PRIs in the State:



1.3 Powers & Functions vested with the PRIs

The Manipur Panchayati Raj Act, 1994 vested the PRIs with the following powers and functions:

A. Functions of GP

- Preparation of Annual Plan for development of the Panchayat area;
- Preparation of Annual Budget;
- Mobilizing relief during natural calamities;
- Removal of encroachments on public properties;
- Organising voluntary labour and contribution for community works;
- Maintenance of essential statistics of village and
- Promotion and development in respect of agriculture, animal husbandry, fisheries, forestry, cottage industries, rural housing, drinking water, roads, poverty alleviation programmes, education, cultural activities, rural sanitation, women and child development, maintenance of public parks and such other functions as may be entrusted in the village area.

B. General power of GPs

A GP shall have the power to do all acts necessary for or incidental to the carrying out of the functions entrusted, assigned or delegated to it as specified under the Manipur Panchayati Raj Act, 1994.

C. Functions of ZP

- Preparation of Annual Budget and Accounts;
- Preparation of plans for economic development and social justice of the district and
- Co-ordinate implementation of the plans, namely agriculture and agricultural extension, irrigation, horticulture, statistics, distribution of essential commodities, soil conservation, marketing, fisheries, education, health and hygiene, drinking water, rural electrification and such other functions as may be entrusted to the ZP.

D. General Power of ZP

Subject to the general and special orders of the Government, ZP may:

- Incur expenditure on education and medical relief outside its jurisdiction;

- Provide for carrying out any work or measure likely to promote health, safety, education, comfort, convenience or social or economic or cultural well being of the inhabitants of the district;
- Contribute to association of all-India, State or inter-state level concerned with the promotion of local Government and for holding exhibition, conference etc., within the district and
- Render financial or other assistance to any person for carrying out any activity in the district which is related to any of its functions and it shall have power to do all acts necessary for or incidental to the carrying out of the functions entrusted under the Manipur Panchayati Raj Act, 1994.

1.4 Devolution of Powers and Functions

The Eleventh Schedule of the Constitution enlists 29 functions to be devolved to the PRIs. The Second State Finance Commission (SFC) in December 2005 recommended for speeding up the process of transfer of functional responsibilities including devolution of financial powers to local bodies in keeping with the letter and spirit of the Constitution. In September 2005, the State Government transferred 16 functions to the PRIs, but it remained on paper only as functionaries and funds were not actually transferred along with the functions. A “Joint Declaration” on devolution of powers and functions to PRIs was signed on 05 October 2006 between the Union Minister of Panchayati Raj and the Chief Minister of Manipur. A review of the progress of the “Joint Declaration” was made by the State officials (April 2009). The effective functioning of PRIs was hampered due to lack of transfer of corresponding funds, functions and functionaries to PRIs. The Departments concerned still continued to receive budgetary allocations of such functions to be transferred.

The activities of 16 Departments to be transferred to PRIs are shown in **Appendix-1**. However, status on the transfer of funds and functionaries in respect of 16 Departments as on 1st April 2010 is shown in table 1.1 & 1.2.

Table 1.1
Transfer of Functions, Functionaries & Funds to ZPs

Sl. No.	Department	Functionaries transferred	Funds transferred
1	Fisheries	1-inspector (Fisheries), 2 FFA to each ZP (except Thoubal)	₹ 7 lakh for 2005-06 ₹ 6 lakh for 2006-07 ₹ 3 lakh for 2007-08 ₹ 4 lakh for 2008-09
2	Horticulture	4-AAOs 8 FAs to each ZP	₹ 8 lakh for 2006-07

3	Tribal Development	1-FA & 1 RM to each ZP and 1-EO each to 2 ZPs	₹ 15.30 lakh for 2006-07 ₹29.70lakh for 2007-08 ₹38.60lakh for 2008-09
4	Rural Development	1-EO, 1-UDC/Acctt., 1-LDC to each ZP	₹ 2008.40 lakh for 07-08 ₹ 2591.68 lakh for 08-09 ₹ 3113.66 lakh for 09-10
5	Science & Technology	Not transferred	₹ 40 lakh for 2006-07 ₹ 40 lakh for 2007-08 ₹ 50 lakh for 2008-09
6	Veterinary & Animal Husbandry	1-FA/Comp Assistant to each ZP	Not transferred
7	Social welfare	2 Gram Sevikas to each ZP	Not transferred
8	Minor irrigation	1 RM/1 Pump Operator to each ZP	Not transferred
9	Agriculture	1-AEO(Agri) & 1 VEO to each ZP	Not transferred
10	Industries	1-EO(Ind) to each ZP	Not transferred
11	Co-operation	1-Sub Registrar to each ZP	Not transferred
12	Transport	Not transferred	Not transferred
13	Health	Not transferred	Not transferred
14	Arts & culture	Not transferred	Not transferred
15	Family welfare	Not transferred	Not transferred
16	Education(schools)	Not transferred	Not transferred

Table 1.2
Transfer of Functions, Functionaries & Funds to GPs

Sl. No.	Department	Functionaries transferred	Funds transferred
1	Fisheries	Not transferred	Not transferred
2	Horticulture	Not transferred	Not transferred
3	Tribal Development	Not transferred	Not transferred
4	Rural Development	1-Panchayat Secretary each to 165 GPs	Not transferred
5	Science & Technology	Not transferred	Not transferred
6	Veterinary & Animal Husbandry	Not transferred	Not transferred
7	Social welfare	Not transferred	Not transferred
8	Minor irrigation	Not transferred	Not transferred
9	Agriculture	Not transferred	Not transferred
10	Industries	Not transferred	Not transferred
11	Co-operation	Not transferred	Not transferred
12	Transport	Not transferred	Not transferred
13	Health	Not transferred	Not transferred
14	Arts & culture	Not transferred	Not transferred
15	Family welfare	Not transferred	Not transferred
16	Education(schools)	Not transferred	Not transferred

1.5 Creation of Database on Finances & Maintenance of Accounts

The Eleventh Finance Commission (EFC) recommended that a database on finances of PRIs should be developed at the District, State and Central Government levels and should be made easily accessible by computerization and linking it through Very Small Aperture Terminal (V-SAT). The data were to be collected and compiled in standard format prescribed by C&AG of India .

During 2000-05, the State Government received ₹ 938.57 lakh under the EFC Award, out of which a sum of ₹175.82 lakh was earmarked for creation of database. The State Government released ₹ 46.86 lakh for creation of database and ₹ 19.92 lakh for maintenance of accounts to PRIs. Further, the State Government released ₹ 2124.03 lakh to PRIs under the Twelfth Finance Commission (TFC) Award with the allocation of ₹ 369.60 lakh for database and ₹ 39.60 lakh for maintenance of accounts during 2005-06 to 2009-10.

Test check of records maintained in three ZPs and 25 GPs revealed that the Director, Rural Development & Panchayati Raj, Manipur directed all PRIs to adopt the Simplified Accounting System for PRIs prescribed by the C&AG of India (March, 2007). However, none of the PRIs test audited prepared Monthly/Annual Receipts & Payments Account, Income & Expenditure Account and Balance Sheet in the prescribed formats. The funds released under EFC & TFC for Creation of Database and Maintenance of Accounts was not utilized for the purpose for which they were sanctioned. Major portion of the funds earmarked for creation of database and maintenance of accounts under EFC and TFC awards were diverted towards other office expenses such as purchase of stationery, furniture, extension of building etc. The computers purchased for creation of database were found not operated by all PRIs due to lack of staff. All the computers purchased for creation of database were lying idle. All the PRIs test audited could not furnish to audit any reasons for not maintaining their accounts.

1.6 Funding of Panchayati Raj Institutions (PRIs)

The State and Central Governments funded the PRIs in the form of grant-in-aid and devolutions for general administration and other developmental activities. The funding by the State Government was on the lines of accepted recommendations of the Second State Finance Commission that took into account factors like population, literacy, health, irrigation, medical facilities etc. The receipts of the PRIs mainly consisted of grants from the State Government towards plan and non-plan schemes, Central & State share of Central Plan

Schemes (CPS), Centrally Sponsored Schemes (CSS) and other receipts of its own.

Under Section 40 of the Manipur Panchayati Raj Act, 1994, a Gram Panchayat shall impose yearly tax on lands and buildings within the local limits of the jurisdiction of the Gram Panchayat subject to such rules as may be made in this behalf by the Government. Further, subject to such maximum rates as the Government may prescribe, a Gram Panchayat may levy the following fees and rates, namely:

- (a) a fee for providing sanitary arrangements at such places of worship or pilgrimage, fair and melas within its jurisdiction as may be specified by the Government by notification;
- (b) a lighting rate, where arrangement for lighting of public streets and places is made by the Gram Panchayat within its jurisdiction and
- (c) a conservancy rate, where arrangement for clearing private latrines, urinals and cesspools is made by the Gram Panchayat.

Similarly, under Section 70 of the Manipur Panchayati Raj Act, 1994, subject to such maximum rates as the Government prescribe, a Zilla Parishad may

- (a) levy tolls on persons, vehicles, or animals or any class of them at any toll-bar established by it on any road other than kutchra road or any bridge vested in it or under its management;
- (b) levy tolls in respect of any ferry established by it or under its management;
- (c) levy road cess and public works cess ;
- (d) levy the following fees and rates, namely:
 - (i) fees on the registration of boats or vehicles;
 - (ii) a fee for providing sanitary facilities at such places or pilgrimage, fairs and melas within its jurisdiction as may be specified by the Government by notification;
 - (iii) a fee for licence for fair or mela;
 - (iv) a lighting rate where arrangement for lighting of public streets and places is made by the Zilla Parishad within its jurisdiction; and

(v) water rate, where arrangement for the supply of water for drinking, irrigation or any other purpose is made by the Zilla Parishad within its jurisdiction.

Further, the Zilla Parishad shall not undertake registration of any vehicle or levy fee thereof and shall not provide sanitary arrangements at places of worship or pilgrimage, fairs and melas within its jurisdiction or levy fee thereof if such vehicle that has already been registered by any other authority under any law for the time being in force or if such provision for sanitary arrangement has already been made by any other local authority.

The scales of tolls, fees or rates and the terms and conditions for the imposition thereof shall be such as may be provided by regulation. Such regulation may provide for exemption from all or any of the tolls, fees or rates in any class or cases.

However, PRIs had neither generated any revenue of their own nor taken up any steps for resource mobilization so far. They solely depended for their revenue on external sources.

The PRIs incurred expenditure on development activities such as water supply and sanitation, roads and bridges, housing, construction of community assets besides providing wage employment, alleviation of poverty etc. The State Government released block grants on a quarterly basis in addition to funds remitted by the respective Departments for the functions transferred to PRIs.

The total receipts of PRIs during 2005-06 to 2009-10 are shown in table 1.3:

Table 1.3
Receipts of PRIs

Source of revenue		Amount (₹ in Crore)				
		2005-06	2006-07	2007-08	2008-09	2009-10
Central Government	GOI share of CSS directly released to DRDA (SGRY, NREGS)	15.74	14.41	12.38	68.48*	385.43
	Additional Central Assistance and FC grants released through State Budget (EFC, TFC)	2.11	2.11	6.35	4.26	8.51
	Total	17.85	16.52	18.73	72.74	393.94

State Government	Honorarium/Salary	12.28	0.91	0.91	0.86	0.72
	Grants					
	Other Grants (SFC)	Nil	Nil	Nil	20.08	25.92
Grants (Head-2515-ORDP)	State share of CSS(SGRY,MNREGS)	4.99	2.96	4.65	0.44	5.17
	Total	17.27	3.87	5.56	21.38	31.81
Grand total (Grants received from Central and State Government)		35.12	20.39	24.29	94.12	425.75
Own Source of Revenue (OSR)	Gram Panchayat	Nil	Nil	Nil	Nil	Nil
	Zilla Parishad	Nil	Nil	Nil	Nil	Nil

*Includes SGRY Funds ₹ 48.76 crore.

1.7 Release of State Finance Commission (SFC) grants

The Report of the Second Manipur State Finance Commission (SFC) covering a period of 5(five) years beginning from 1 April 2001 was passed in the State Legislative Assembly during December, 2005. The State Government decided to extend the recommendations of the Second State Finance Commission up to the period of 31 December 2010. An amount of ₹20.10 crore was released by the State Government to PRIs as Grant-in aid under Second SFC Award for the year 2008-09 and another ₹ 25.91 crore for the year 2009-10 as shown in table 1.4:

Table 1.4
Release of Funds to PRIs under SFC

(₹ in Crore)

SL.No.	Name of PRIs	Amount	
		Released during 2008-09	Released during 2009-10
A	Zilla Parishad		
(i)	ZP, Imphal East	0.87	1.12
(ii)	ZP, Imphal West	0.59	0.76
(iii)	ZP, Thoubal	0.94	1.21
(iv)	ZP, Bishnupur	0.62	0.79
	Total	3.02	3.88
B	Community Development Block		
(i)	Imphal East-I CD Block	2.19	2.82
(ii)	Imphal East-II CD Block	2.23	2.87
(iii)	Jiribam CD Block	0.52	0.67
(iv)	Imphal West-I CD Block	2.32	3.00
(v)	Imphal West –II CD Block	1.02	1.32
(vi)	Thoubal CD Block	3.55	4.58
(vii)	Kakching CD Block	1.76	2.27
(viii)	Bishnupur CD Block	1.78	2.30
(ix)	Moirang CD Block	1.71	2.20
	Total	17.08	22.03
	Grand Total	20.10	25.91

The SFC had *inter alia* recommended the following:

- Transfer of functions and responsibilities to local bodies;
- The principles of devolutions of fund and grants to local bodies;
- Power of levying taxes and fees including enhancement of rates;
- Transfer of staff and administrative control thereof necessary for performing assigned functions and
- Making the local bodies representative in character by holding timely and regular election

The above recommendations have been accepted by the State Government (December, 2005). As regards transfer of Funds, Functions & Functionaries under devolution of Powers & Functions, it is depicted at paragraph 1.4 and Appendix-I.

1.8 District Planning Committee (DPC)

Under Section 96 of the Manipur Panchayati Raj Act, 1994 the Government should constitute a District Planning Committee (DPC) in each district to consolidate the plans prepared by each ZP, GP and Urban Local Body (ULB) and to prepare a draft development plan for the district as a whole. As per Manipur Panchayati Raj (Amendment) Act, 1996, the Adhyaksha of the ZP shall be the Chairman of the DPC and he would forward the development plan as recommended by the DPC to the Government.

The State Government has issued orders for constituting DPCs in all the four valley districts of Manipur in August 1997 (Thoubal and Bishnupur) and May, 2003 (Imphal East and Imphal West). Test audit of the PRIs revealed that none of them submitted their plan proposals to DPC for consolidation. Though DPCs have been constituted in the four valley districts of the State, as of March 2010, none of them had prepared & submitted the District Development Plans to the State Government as envisaged.

1.9 Audit Arrangement

In terms of Section 44(1) and Section 74(1) of the Manipur Panchayati Raj Act, 1994, the Director, Local Fund Audit (DLFA) acts as Primary Auditor of both tiers of PRIs. However, DLFA communicated that audit of PRIs viz GPs & ZPs have not been separately conducted on the ground that audit of accounts of the same had been covered at the time of checking of the accounts of Block Development Offices. Further, it is also communicated that audit of accounts of the BDOs except BDOs of Imphal West district have been conducted up to March 2010 by DLFA. On the other hand, the Comptroller and Auditor General of India

(C&AG) conducts audit of PRIs under Section 14 (1) & Section 20 (1) of the C&AG's (DPC) Act, 1971. The State Government in June 2002 entrusted audit of accounts of PRIs to the Comptroller and Auditor General of India (C&AG) under Section 20 (1) of the C&AG's (DPC) Act, 1971 under Technical Guidance and Supervision (TGS). However, no amendments were made in the Panchayati Raj Act so far in this connection (March 2011).

1.10 Audit Coverage

Test audit of the accounts three ZPs viz. Imphal East, Imphal West, Bishnupur and 25GPs for the period from April 2006 to March 2009 were conducted during 2009-2010. (Details at Appendix –II-A)

1.11 Internal Control Mechanisms

1.11.1 Non-maintenance of records

As per Section 43 and Section 73 of the Manipur Panchayati Raj Act, 1994 (Act No.26 of 1994), PRIs shall keep their accounts in such form and manner as may be prescribed. It shall be mandatory for each PRI to prepare and maintain following books of records and statements in the prescribed form:

- (i) Grants-in-aid Register;
- (ii) Budget;
- (iii) Cash Book;
- (iv) Monthly/Annual Receipts and Payments Accounts;
- (v) Monthly Reconciliation Statement;
- (vi) Register of Movable/Immovable assets and
- (vii) Inventory Register.

Test-check of the one ZP and 25 GPs revealed non-maintenance of the following records:

- Annual Action Plan and Budget;
- Main Cash Book;
- Monthly/Annual financial statements and Balance sheet;
- Bank reconciliation statements;
- Appropriation Register;
- Asset Register for movable and immovable properties;

- Stock and issue Register;
- BPL Register;
- Employment Register and
- Grants-in-aid Register.

Due to non-maintenance of accounts, statements/records and poor maintenance of Cash Book, the financial as well as asset positions of the PRIs could not be ascertained in audit.

1.11.2 Non Preparation of Bank Reconciliation Statement

Bank Reconciliation is a procedure which aims at reconciling the bank balance as shown in the Cash Book of the local body with that of the bank balance as per the pass book/statement received from the bank. The bank reconciliation should be carried out on a monthly basis or at such other shorter time intervals as the body may decide.

The position of bank balances as per SGRY Cash Book and Bank Pass Book maintained in Bishnupur Zilla Parishad on five different dates is shown in Table 1.5 as under:

Table 1.5
Figures of SGRY Cash Book and Bank Pass Book maintained in ZP, Bishnupur

Date	Balance as per SGRY cash Book (in ₹)	Balance as per SGRY Pass Book (in ₹)	Difference (in ₹)
01-04-06	9,75,067	10,41,297	(+) 66,230
02-03-07	5,13,225	6,13,139	(+) 99,914
21-11-07	1,99,160	1,32,162	(-) 66,998
29-12-07	5,49,300	4,82,302	(-) 66,998
26-03-08	9,45,758	8,78,760	(-) 66,998

It was also verified that the Imphal West ZP opened 4(four) savings bank accounts at SBI, Imphal Secretariat Branch during the period under audit. As on 31 March, 2009 the position of cash balances as per Bank Pass Books were as under:

(i) SBI, Secretariat Branch Bank Account No.10329731615	₹ 43,60,774.65
(ii) SBI, Secretariat Branch Bank Account No.30090010780	₹.1,721.00
(iii) SBI, Secretariat Branch Bank Account No.01100050175	Not available
(iv) SBI, Secretariat Branch Bank Account No.10329730225	₹ 9,965.28

However, due to non maintenance of the Cash Book in the Imphal West ZP from April 2006 to March 2009 the bank balance as per Cash Book could not be available. Moreover, any of the PRIs test checked have no idea about the Bank Reconciliation Statement and never prepared the said statement

Because of non preparation of Bank Reconciliation Statements, omissions and inclusions of sundry cash items could not be detected in time.

1.11.3 Non-adoption of Prescribed Accounting Formats and Accounting System

The Secretary, Ministry of Panchayati Raj, Government of India had circulated (October, 2009), the Modified Accounting Structure for PRIs with an instruction to operationalise it with effect from April 2010. The State Government was to provide accounting formats to all PRIs for maintenance of accounts in the prescribed manner. However, none of the PRIs test audited maintained their accounts in the prescribed format.

1.11.4 Irregularities in maintenance of Cash Book

While maintaining Main Cash Book, the following points should be observed:

- (i) All monetary transactions should be entered in the Cash Book as soon as they occur and attested by the Head of the Office in token of check.
- (ii) The Cash Books should be closed regularly and completely checked. The Head of the Office should verify the totaling of the cash book or have this done by some responsible subordinate other than the writer of the cash book and initial it as correct.
- (iii) Further, at the end of each month, the Head of Office should verify the cash balance in the cash book and record a signed and dated certificate to that effect.
- (iv) The daily/monthly total of each Subsidiary Cash Book should be taken into account in the appropriate part of the Main Cash Book.

However, the above practices have not been exercised in all test checked PRIs.

1.11.5 Training for Staff

Accounts of the GPs in the four valley districts of Manipur where PRIs are functioning were maintained by the Panchayat Secretaries of the concerned GPs who do not possess adequate knowledge about the maintenance of accounts. As a

result, no account was maintained properly in the GPs test audited. On scrutiny of the records maintained in test checked PRIs, it was noticed that no training programme was conducted during the year 2009-10.