

PART II
PANCHAYAT RAJ INSTITUTIONS

CHAPTER IV
AN OVERVIEW OF
PANCHAYAT RAJ INSTITUTIONS

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SECTION 'A'

AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

4.1 Background

The 73rd Constitutional amendment gave Constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, election, regular flow of funds through the Finance Commission etc. As a follow up, the States were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of self-government.

Consequent to the 73rd amendment of the Constitution, the Government of Tamil Nadu (GoTN) enacted the Tamil Nadu Panchayats Act, 1994. Under this Act, a three tier system of PRIs viz., Village Panchayats at the village level, Panchayat Unions or Block Panchayats at the intermediary level and District Panchayats at the apex level were established.

4.2 State profile

The demographic and developmental status of the State is given in **Table 4.1** below:

Table 4.1: Important statistics of the State

Indicator	Unit	State statistics
Population	Millions	72.14
Population density	Sq.Km	555
Rural population	Percentage	51.55
Number of PRIs	Numbers	12,940
Number of District Panchayats	Numbers	31
Number of Panchayat Unions	Numbers	385
Number of Village Panchayats	Numbers	12,524
Gender ratio	Per 1,000 males	995
Literacy	Percentage	80.33

(Source : 2011 Census figures and Policy Note of the Rural Development and Panchayat Raj Department for 2011-12)

4.2.1 Classification of the Panchayat Raj Institutions

As mentioned above, the PRIs are classified into three tiers viz., District Panchayats, Panchayat Unions and Village Panchayats. There are 31 District Panchayats, 385 Panchayat Unions and 12,524 Village Panchayats in Tamil Nadu.

The categorisation of the Village Panchayats based on population is given in **Table 4.2**.

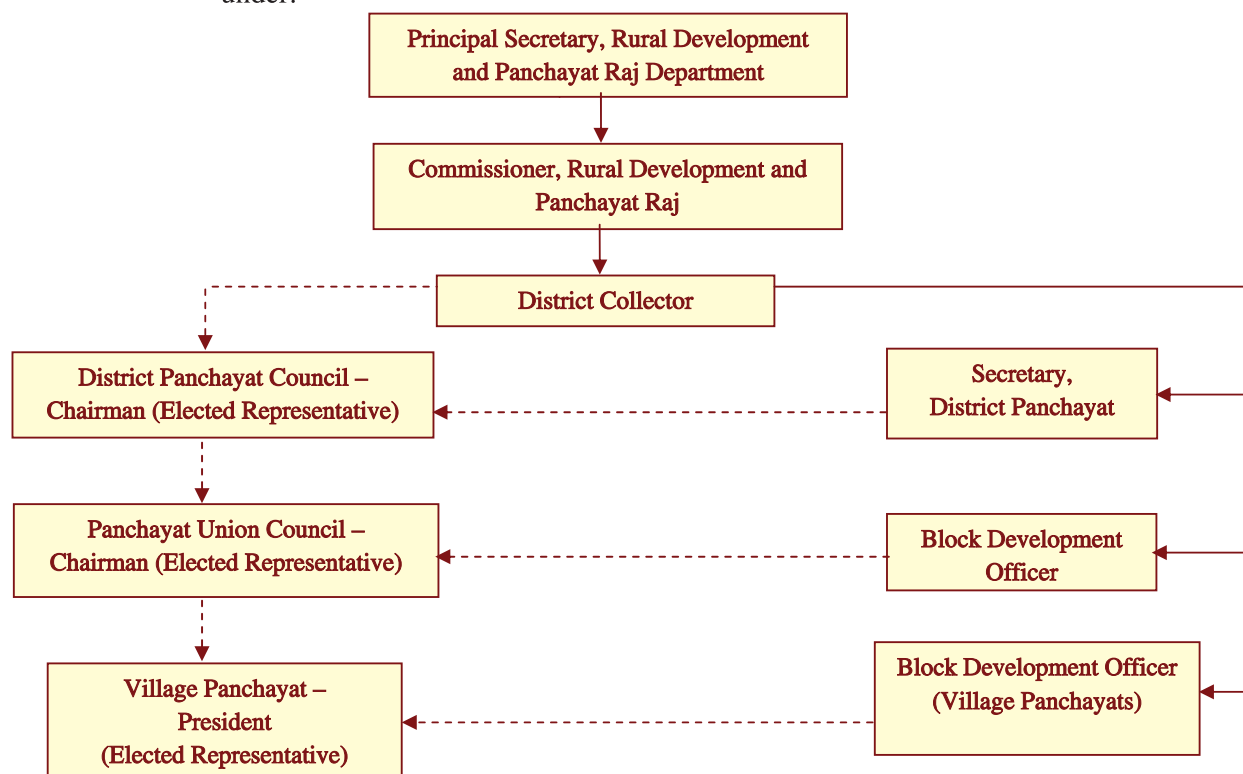
Table 4.2: Population-wise classification of Village Panchayats

Sl. No.	Population	Number of Village Panchayats
1.	Below 500	66
2.	501 to 1,000	1,175
3.	1,001 to 3,000	7,228
4.	3,001 to 5,000	2,554
5.	5,001 to 10,000	1,354
6.	Above 10,000	147
Total		12,524

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2011-12)

4.3 Administration of PRIs

The organisational structure for administering the PRIs in Tamil Nadu is as under:



4.4 Status of devolution of functions and functionaries

Eleventh Schedule of the Constitution of India empowered the State Legislature to transfer 29 functions to PRIs. The important changes brought about by the Tamil Nadu Panchayats Act, 1994 were: (i) introduction of three tier system, (ii) mandatory conduct of local body elections every five years, (iii) introduction of reservation of seats and offices for SC/ST, (iv) introduction of reservation of one-third of seats and offices for women,

(v) constitution of State Election Commission to conduct elections to local bodies, (vi) establishment of a quinquennial State Finance Commission, (vii) constitution of District Planning Committees and (viii) introduction of the concept of Grama Sabha in Village Panchayats. In accordance with the changes made in the Tamil Nadu Panchayats Act, 1994, the State Election Commission was constituted and local bodies elections were conducted every five years. One third of seats and offices have been earmarked for women and seats and offices have been reserved for SC/ST and the State Finance Commission has been constituted every five years and its recommendations are placed in the State Legislature.

Government issued various orders as detailed below, giving powers to the President of Village Panchayats to assist the line departments in executing their functions and to supervise the works executed by them in the villages. Test check of 20 Village Panchayats in five Panchayat Unions of Villupuram District revealed that there was no actual transfer of functions to the Village Panchayats to decide their requirements.

Government Order	Actual position	Reply of the Block Development Officers of test checked Panchayat Unions
Government passed orders (June 1999) empowering Village Panchayats to implement ordinary water supply schemes out of own funds and Government grants. Supervisory powers were also entrusted to Village Panchayats for providing clean and potable water in places where clean and potable water was not provided under Self Sufficiency Schemes, supply of water through combined water supply schemes and supervision of desalination of salt water in rural areas etc.	These works were undertaken by the Tamil Nadu Water Supply and Drainage (TWAD) Board.	Role of Village Panchayats was limited to undertaking repairs and maintenance of hand pumps, overhead tanks and identification of suitable site for implementation of water supply schemes by TWAD Board. Further, the PRIs were not given technical staff for implementation of the water supply schemes.
Government empowered (January 2008) village panchayat Presidents to supervise Public Distribution (PD) shops, participate in the meeting held by Civil Supplies Department to hear the difficulties faced by the public in PD shops, update family cards, present the updated list of family cards and list of farmers with details of loans availed before Grama Sabha. Government also insisted the Village Panchayats to implement the schemes of Co-operation, Food and Consumer Protection Department.	None of the functions were carried out by the village panchayat Presidents.	Powers were not delegated so far to the Panchayat Presidents. Hence these activities were not performed by the Village Panchayats.
Government issued orders (January 2008) empowering village panchayat Presidents to plant avenue trees, lease existing trees, remove encroachment of public roads and collect toll for the maintenance of public roads.	None of the functions were carried out by the Village Panchayats.	While the planting and leasing of avenue trees were done by Highways Department/Public Works Department, the power to remove the encroachment from public roads was vested with the Revenue Department.
Government empowered (June 1999) the Panchayat Union Councils to implement developmental schemes for promoting khadi and village industries and assist in getting financial aid to those engaged in this occupation.	None of the powers have actually been devolved to the PRIs.	The Khadi Department was not consulted or given directions to identify beneficiaries wherever required. Further no funds were allotted to PRIs exclusively for the benefit of khadi and handicraft schemes.
Government directed (July 1999) the Panchayat Union Councils to establish and maintain veterinary hospital, implement veterinary related works, supply cattle to beneficiaries and impart training to poultry farm owners in consultation with Animal Husbandry Department.	All the said works were still under the control of the Animal Husbandry Department.	Neither the functions nor the functionaries were transferred to the PRIs.
Government directed (July 1999) the PRIs to implement functions relating to fisheries, elementary schools, social welfare activities, social forestry, public health and family welfare.	These functions were carried out by the respective departments of the Government.	Neither the functions nor the functionaries were transferred to the PRIs.

From the above it could be seen that many of the functions ordered to be transferred, were in effect carried out by the departments, defeating the very objective of decentralised governance enshrined in the Constitution.

4.5 Decentralised planning

4.5.1 Standing Committees

PRIs are required to constitute Standing Committees to perform the assigned functions. The constitution of the committees is given in **Table 4.3** below:

Table 4.3: Constitution of the Standing Committees

Category of PRIs	Chief Political Executive	Standing Committees	Political Executive of Standing Committees
District Panchayats	Chairman	Food and Agriculture, Education, Health and Welfare, Industries and Labour, Public Works Committee	Chairman and Members of the Council
Panchayat Unions	Chairman	Agricultural Production, Education, General Purpose Committee	
Village Panchayats	President	-	-

As per Section 241 (1) of the Tamil Nadu Panchayats Act, 1994, the State Government constituted (November 1997) District Planning Committees (DPC) in 28 districts of the State. The role and responsibility of DPCs are already mentioned in Paragraph 1.5.1 of this report. As stated in Paragraph 1.5.1 of this report, the Annual Plans prepared at the Government level are only consolidated and adopted as District plans. No separate inputs are received from the PRIs. Requirements at the grass root level were thus not completely reflected in the District plans.

4.6 Financial profile

4.6.1 Sources of funds flow to PRIs

The major resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, Own Revenue and Assigned Revenue.

4.7 Accounting framework

4.7.1 Accounts format

The Thirteenth Finance Commission stated (December 2009) that for the period 2011-15, a State Government would be eligible to draw its general performance grant only if it followed the conditions stipulated by it. One of the conditions was that the PRIs should follow the Model Panchayat Accounting System prescribed by the Comptroller and Auditor General of India (CAG) and the Ministry of Panchayat Raj. The State Government has to certify that the accounting system as recommended by the Government of India (GoI) has been introduced in all the rural local bodies.

The Commissioner of Rural Development and Panchayat Raj (CRDPR) reported (December 2011) that the High Level Monitoring Committee in its meeting held in September 2011 decided to implement the conditions laid down by the GoI to draw the general performance grant and the GoTN had decided to implement the Panchayat Raj Institutions Accounting (PRIA) software in all the Panchayat Unions and District Panchayats from 2011-12 and in all the Village Panchayats from 2012-13. However, in the Policy Note of Rural Development and Panchayat Raj Department for the year 2012-13, the Government stated that it had decided to implement PRIA software in all the Village Panchayats, Panchayat Unions and District Panchayats from the year 2012-13.

4.8 Audit arrangements

In accordance with Section 193 of the Tamil Nadu Panchayats Act, 1994, GoTN appointed the following officers as Auditors for PRIs as given in **Table 4.4**.

Table 4.4: Audit arrangements for PRIs

Tier of PRI	Auditors	Periodicity
District Panchayats	Director of Local Fund Audit (DLFA)	Annual
Panchayat Unions	DLFA	Quarterly
Village Panchayats	(i) Deputy Block Development Officer (DBDO) except audit of scheme accounts	Quarterly
	(ii) Assistant Director of Rural Development (Audit) to follow up the audit of DBDO	Quarterly
	(iii) DLFA for audit of scheme accounts	Annual (test check)

DLFA is the statutory Auditor for Panchayat Unions and District Panchayats. Based on the recommendation of Second State Finance Commission (SSFC), DLFA is conducting only test audit of Village Panchayats accounts including scheme accounts. The DBDO audits all the General Fund accounts of the Village Panchayats and certifies them.

Accounts of District Panchayats and Panchayat Unions are also audited by the Principal Accountant General (PAG) under Section 14 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Further, technical guidance is provided by the PAG to DLFA regarding audit of District Panchayats and Panchayat Unions in terms of order of GoTN issued in March 2003.

4.8.1 Audit of PRIs by the Principal Accountant General

Audit of PRIs is conducted under Section 14 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to PRIs. Important irregularities detected by Audit during local audit of PRIs by test checking of records are followed up through Inspection Reports issued to the PRIs concerned and CRDPR.

Government had issued general orders in April 1967 fixing a time limit of four weeks for response by the authorities for all paragraphs included in the Inspection Reports issued by Audit. However, as of June 2012, 1,895 paragraphs contained in 394 Inspection Reports relating to the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

CAG's Audit Reports upto the year 1996-97 were discussed by the Public Accounts Committee (PAC) and recommendations were issued. As of June 2012, Action Taken Reports on 169 recommendations relating to the period 1982-83 to 1996-97 of the Rural Development and Panchayat Raj Department were pending for final settlement. All paras/reviews included in CAG's Audit Reports on PRIs for the year 2000-01, 2005-06 and 2006-07 were taken up and discussed by the PAC in January 2012.

SECTION 'B' – FINANCIAL REPORTING

4.9 Introduction

Financial reporting in the PRIs is a key element of accountability. The resource base of PRIs in addition to their own tax/non-tax revenue consists of devolution of funds by State Government, assigned/shared revenue and funds provided based on the recommendations of Central Finance Commission. A chart showing the flow of funds to PRIs is given in **Appendix 4.1**.

4.10 Source of receipts

Among the three tiers, Village Panchayats alone have the power to levy taxes. The other source of receipts for Village Panchayats and Panchayat Unions are non-tax revenue, assigned revenue from State Government and grants given by State Government for various purposes and State and Central Finance Commissions (CFC) grants.

Details of receipts and expenditure of PRIs during 2006-11 as furnished by the Director of Rural Development and Panchayat Raj (DRDPR) are shown in **Table 4.5**. The accuracy of these figures could not be ensured in the absence of audited accounts of PRIs.

Table 4.5: Details of receipts and expenditure of PRIs

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Own revenue	269.79	307.80	277.77	309.83	382.07
Assigned revenue	227.91	217.44	459.85	220.73	154.72
Grants	2,422.30	1,586.27	1,718.50	1,926.57	2,961.23
Total receipts	2,920.00	2,111.51	2,456.12	2,457.13	3,498.02
Revenue expenditure	1,944.12	2,231.60	2,579.24	3,044.41	3,829.72
Capital expenditure	616.53	500.69	505.21	471.61	527.73
Total expenditure	2,560.65	2,732.29	3,084.45	3,516.02	4,357.45
Percentage of capital expenditure to the total expenditure	24	18	16	13	12

(Source: Details furnished by DRDPR in December 2011)

The expenditure depicted for the years 2007-08 to 2010-11 is more than the receipts as the details of scheme grants routed through DRDA were not available. The grants indicated included only the SFC and CFC grants.

The quantum of Capital expenditure remained more or less at the same level and its proportion to total expenditure declined from 24 *per cent* in 2006-07 to 12 *per cent* in 2010-11. This shows that development activities in the Village Panchayats have not progressed well over the years.

4.11 Central Finance Commission grants

The details of CFC grants released to PRIs are given in **Table 4.6**.

Table 4.6 : Details of Central Finance Commission grants

(₹ in crore)

Finance Commission	Period	Grants released			
		Village Panchayats	Panchayat Unions	District Panchayats	Total
X FC	1996-97 to 2000-01	76.97 (27)	155.62	54.75	287.34
XI FC	2000-01 to 2004-05	242.49 (52)	223.63	Nil	466.12
XII FC	2005-06 to 2009-10	817.80 (94)	52.20	Nil	870.00
XIII FC	2010-11 to 2014-15	287.10 (100)	Nil	Nil	287.10

(Source : Funds released detail of Rural Development and Panchayat Raj Department)

It was observed that release of CFC grants to Village Panchayats increased from 27 per cent of total grants released to PRIs in X Finance Commission period to 52 per cent in XI Finance Commission period, 94 per cent in XII Finance Commission period and 100 per cent in XIII Finance Commission period. These grants were to be spent for operation and maintenance of water supply, sanitation and street lights. Government of Tamil Nadu issued (December 2011) instructions to merge the unspent amount under the previous Finance Commission grants with the XIII Finance Commission grants and to redistribute the same to the Village Panchayats on the basis of population.

4.12 Arrears in Audit and Accounts

4.12.1 Audit of PRIs by DLFA

(i) The position of arrears in audit of PRIs as of March 2011 is given in **Table 4.7**.

Table 4.7: Position of audit of Panchayat Unions and District Panchayats by DLFA

Category of PRI	Year	Total number of PRIs	Accounts yet to be submitted	Audit completed	Audit in arrears
Panchayat Unions	2008-09	385	Nil	329	56 (15)
	2009-10	385	40	31	354 (92)
District Panchayats	2008-09	29	Nil	28	1 (3)
	2009-10	29	15	14	15 (52)

(Source: Details furnished by DLFA)

Figures in the brackets denote percentage of Audit in arrears.

As seen from the table, out of 385 Panchayat Unions and 29 District Panchayats, DLFA completed audit of only 329 Panchayat Unions and 28 District Panchayats for the year 2008-09 and 31 Panchayat Unions and 14 District Panchayats for the year 2009-10.

(ii) Regular audit of Village Panchayats is conducted by the Deputy Block Development Officers and 20 *per cent* of the total number of Village Panchayats was to be test checked by the DLFA annually. The position of audit of Village Panchayats by DLFA as on 31 March 2011 for the years 2008-09 and 2009-10 is given in **Table 4.8**.

Table 4.8: Position of audit of Village Panchayats

Category of PRI	Total number to be audited by DLFA	Number of Village Panchayats wherein audit not completed	
		2008-09	2009-10
Village Panchayats	2,523	410	1,061

(Source: Details furnished by DLFA)

The number of paragraphs included in the Inspection Reports of DLFA issued upto 2009-10, pending for settlement as on 31 March 2011, in respect of Panchayat Unions and District Panchayats aggregated to 25,210 and 283 respectively. Year-wise pendency position is given in **Table 4.9**.

Table 4.9 : Year-wise pendency of paragraphs

Year of IR	Number of paragraphs pending in respect of	
	Panchayat Unions	District Panchayats
Upto 2005-06	4,758	104
2006-07	1,529	27
2007-08	5,041	34
2008-09	13,373	89
2009-10	509	29
Total	25,210	283

(Source: Details furnished by DLFA)

The State Government appointed a State High Level Committee (SHLC) in November 1997 with the Commissioner, RDPR Department as Chairman and DLFA as Deputy Chairman assisted by three¹ members and District High Level Committee (DHLC) headed by District Collector as Chairman and Project Officer, District Rural Development Agency (DRDA) as Deputy Chairman assisted by three² members and one Secretary for settlement of the outstanding paragraphs.

As reported by DRDPR (December 2011), the DHLC conducted 373 meetings during the period 2008-09 and 2010-11 and settled 9,159 paragraphs relating to Panchayat Unions and District Panchayats. SHLC conducted four meetings during the period November 1997 to February 2006 and settled 223 paragraphs.

¹ Financial Advisor and Chief Accounts Officer, RDPR Department; Chief Engineer/Superintending Engineer, Tamil Nadu Water Supply and Drainage Board and Chief Engineer (Highways and Rural Works) as members.

² Deputy Director, DLFA; Executive Engineer, DRDA; Deputy Director, RDPR Department as members and PA to District Collector (Audit) as Secretary.

4.13 Conclusion

The Government issued various orders giving powers to the Presidents of Village Panchayats to assist the line departments in executing their functions and to supervise the works executed by them in the villages. However, in respect of many functions there was no actual transfer of functions and functionaries to the Village Panchayats, defeating the very objective of decentralised governance enshrined in the Constitution. The proportion of capital expenditure to total expenditure declined from 24 *per cent* in 2006-07 to 12 *per cent* in 2010-11. Government of Tamil Nadu decided to implement the Panchayat Raj Institutions Accounting software in all the Village Panchayats, Panchayat Unions and District Panchayats from 2012-13 instead of their earlier decision to implement in all Panchayat Unions and District Panchayats from 2011-12. As of June 2012, 1,895 paragraphs contained in 394 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.