

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 Seventy-third 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 Panchayat 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 Schedule¹;

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.
- (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 three-tier system of Panchayati Raj Institutions (PRIs) had been established in the Madhya Pradesh.

- Zila Panchayat (ZP) at district level
- Janpad Panchayat (JP) at block level and
- Gram Panchayat (GP) at village level.

At present, there are 50 ZPs, 313 JPs and 23006 GPs (November 2012) in the State.

¹ 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:

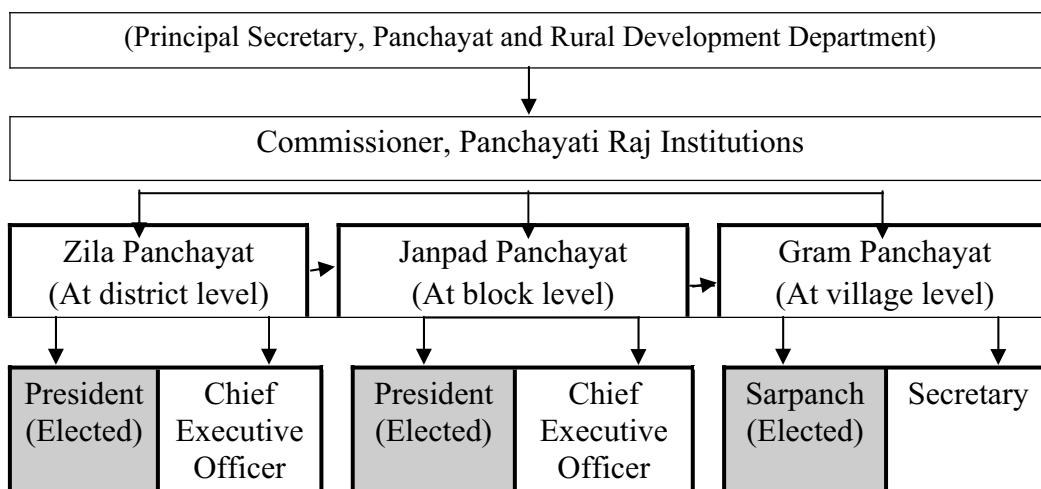
Particulars	Unit	State figure	All India figures
Population	Crore	7.26	121.02
Share in Country's population	per cent	6	--
Rural population	Crore	5.25	83.31
Share of Rural Population	per cent	72	69
Population Density	per sq. Km.	236	382
Literacy rate	per cent	71	74
Sex ratio (Females per thousand males)	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.	ZP	To co-ordinate, evaluate and monitor activities and guide the Janpad Panchayat and Gram Panchayat
2.	JP	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.	GP	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 Zila Panchayat or Janpad Panchayat.

Standing committees of Zila Panchayat and Janpad Panchayat

- a. General Administration Committee
- b. Agriculture Committee
- c. Education Committee
- d. Communication and Works Committee
- e. Cooperation and Industries Committee

Standing committees of Gram Panchayat

- a. General Administration Committee
- b. Construction and Development Committee
- c. Education, health and social welfare committee

1.4 Audit coverage

Out of 23369 PRIs (50 ZPs, 313JPs and 23006 GPs) in the state, records of 1267 PRIs (47 ZPs, 185 JPs and 1035 GPs) were scrutinised during the year 2011-12 (**Appendix-1.1**).

1.5 Accounting arrangements

1.5.1 Maintenance of Accounts in formats prescribed by the C&AG

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

In test check of records of 47 ZPs, 185 JPs and 1035 GPs, during the year 2011-12, it was observed that, none of the PRIs at different levels kept the accounts in the prescribed formats.

On this being pointed out Commissioner, PRI replied (August 2012) that instruction for maintenance of Accounts in prescribed format was issued (September 2011) which was under process in the year 2011-12.

1.5.2 Budget and Annual Accounts of GPs

As per section 72 of M.P. Panchayat Raj Avam Gram Swaraj Adhiniyam 1993, the Secretary of the Panchayat shall prepare the Budget and Annual Accounts, as prescribed in section 73. Rules 3, 4 and 5 of the MP Gram Panchayat Rules (Budget Estimates) 1997 stipulate that the GPs should prepare its Annual Budget and get it approved from the Janpad Panchayat by 15 March each year and Rule 63 and 64 of MP Gram Panchayat (Accounts) Rules, 1999 stipulate that the Annual Accounts of the GP should be prepared and placed before General Administration Committee of Gram Sabha for approval on or before 15 May each year.

In test check of records of GPs during 2011-12 it was noticed that Annual Budget and Accounts were not prepared as prescribed in the above rules.

1.5.3 Non-preparation of Annual Budgets of Zila Panchayat Narsinghpur

Under Section 72 of MP Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993 and Rule 12 & 13 of MP Zila Panchayat (Budget Estimates) Rules, 1997, each ZP was to prepare Budget estimates before 10 January of each year and get it approved through elected body of Zila Panchayat (ZP) before 20 January and submitted to Commissioner for final approval before 15 March of each year.

During scrutiny of records of the ZP, Narsinghpur it was observed that the Budget Estimates for the year 2010-11 & 2011-12 were not prepared and approved by the elected body of the ZP. Thus the receipt and expenditure of the ZP Narsinghpur remained out of the legislative control of elected body.

Despite, the ZP incurred an expenditure of ₹60.44 crore during the year 2010-11 and ₹77.15 crore during the year 2011-12, which was unauthorised. Details are given in **Appendix-1.2**.

On this being pointed out in audit, the Chief Executive Officer, ZP Narsinghpur stated (September 2012) that the Budgets for the above period were not prepared and got approved. The same would be prepared in future.

The reply of the CEO was not in accordance with the above Rules, as the Budget should be prepared and got approved before incurring any expenditure.

1.6 Audit arrangements

As per recommendations of the EFC, audit of PRIs by DLFA has been brought (November 2001) under the TG&S of the C&AG. Accordingly, the audit of 47 ZPs, 185 JPs and 1035 GPs was conducted during 2011-12 and Inspection Reports were sent to the DLFA for providing Technical Guidance.

Para 10.121 of the recommendations of Thirteenth Finance Commission 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 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.

1.7 Source of revenue

There are mainly two sources of revenue for the PRIs (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 Central & State Finance Commission and State & 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 State Budget including GOI's share of the schemes and grants recommended by Central and State Finance Commission were as follows:-

(₹ in crore)

Sl. No.	Grants in aid			Actual Expenditure			Saving (5-8)	Percentage of Savings	
	Year	Revenue	Capital	Total	Revenue	Capital			Total
1	2	3	4	5	6	7	8	9	10
1.	2007-08	3221.86	3.04	3224.90	2996.51	3.03	2999.54	225.46	7
2.	2008-09	3985.44	2.04	3987.48	3125.25	0.03	3125.28	862.20	22
3.	2009-10	4942.02	7.02	4949.04	4038.20	5.01	4043.21	905.83	18
4.	2010-11	6585.74	231.40	6817.14	5678.75	198.65	5877.40	939.74	14
5.	2011-12	7670.04	241.08	7911.12	6697.87	365.29	7063.16	847.96	11

(Source:- Compiled from Detailed Appropriation Accounts)

The above table shows that the savings were ranging between 07 to 22 per cent during 2007-12.

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

On this being pointed out, Commissioner, Panchayati Raj replied (November 2012) that the information regarding collection of taxes by ZP, JP and GPs was not available at the Directorate. Reminder was issued (May 2013), reply is yet to be received .

1.9 Devolution of State Finance Commission Grants

Article 243 W of the Constitution had 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 PRIs and to make recommendations to the Governor for devolution of funds.

The recommendations of Third SFC were adopted in January 2010 by the State Government. The Third SFC recommended that the four per cent of divisible fund² of previous year of State Government should be devolved to the PRIs which would be collected in the divisible fund.

Audit found that the funds actually devolved by State Government to the PRIs were short of ₹ 195.28 crore during 2010-11 and 2011-12 as detailed below:-

² Divisible fund means total tax revenue of previous year minus ten per cent of expenditure for collection of taxes and deduction of assigned revenue to PRIs & ULBs.

(₹ in crore)

Year	Division fund of State Government	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
2011-12	17410.17	696.41	568.60	127.81
Total	31370.39	1254.82	1059.54	195.28

(Source: Finance Account and information provided by Commissioner, PRI of MP.

The actual reasons of short release of funds were not furnished to Audit by the Finance Department of the State Government (November 2012). Despite reminder issued (May 2013) to the Government, reply is awaited.

1.10 Non preparation of Bank reconciliation statement

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.

Audit found that balances of cash book was less than balances of bank accounts of ₹ 26.23 crore in 16³ PRIs (seven ZPs and Nine JPs.) It was further noticed that there was shortage of funds of ₹4.30 crore in bank accounts of ZP, Rewa and three JPs (Keshatla, Petlawad & Rampur Naikin) in comparison to cash book. Details are shown in **Appendix-1.3**.

On this being pointed out in Audit, the Chief Executive Officers of above PRIs replied (September & October 2012) that Bank reconciliation statements would be prepared in future.

The reply of Chief Executive Officers of above PRIs was not in consonance of the above financial rules. Updated position called for (May 2013), reply is awaited.

1.11 Status of outstanding audit Paras

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 for last five years is as under :-

S. No	Financial Year	Opening balance of outstanding audit objection	Addition	No of objections settled	No of objection outstanding
1	2007-08	5853	3877	07	9723
2	2008-09	9723	1544	31	11236
3	2009-10	11236	1171	Nil	12407
4	2010-11	12407	1621	465	13563
5	2011-12	13563	4926	1033	17456

Source :- Monthly Arrear Reports of the SSA-1 Wing.

³ CEO ZP-Hoshangabad, Burhanpur, Dewas, Jabalpur, Katni, Tikamgarh & Narsinghpur. CEO JP- Dewas, Pohri, Jatara, Guna, Chachouda, Khaknar, Aaron, Jawra & Kannod.

Despite regular correspondence with DLFA, no effective pursuance was made by them for settlement of outstanding objections. Latest correspondence has been made in this regard in April 2013.

1.12 Defective reporting of Utilisation Certificates to the Government of India

As per Rule 212(1) of GFR, In respect of recurring grants Ministry or Department concerned should release any amount sanctioned for the subsequent financial year only after UC in respect of grants of preceding financial year is submitted. Release of grants-in-aid in excess of 50 *per cent* of the total amount sanctioned for the subsequent financial year shall be done only after the annual audited statement relating to grants-in-aid release in the preceding year are submitted to the satisfaction of the Ministry/ Department concerned.

During scrutiny of records of the Commissioner, Directorate of Social Justice, it was found that the UCs of the grants-in-aid amounting to ₹1477.14 crore released to the ZP during 2008-12 for pension schemes were not obtained from the ZP. It was further noticed that the Commissioner Social Justice sent the UCs to the GOI on the basis of grant released to the ZPs without ascertaining actual utilisation of funds under pension distribution. The details are given in **Appendix-1.4**.

On this being pointed out in audit (August 2012), Commissioner, Social Justice stated (August 2012) that the physical certificate of the pension distribution was obtained from the ZP. The Financial certificates were not being obtained, which would be ensured in future.

The reply of Commissioner was not in consonance of the above financial rules.

1.13 Non adjustment of Advances

Rule 52 of the MP Zila Panchyat and Account Rules, 1999 and Rule 49 of MP Janpad Panchyats Accounts Rules, 1999 stipulate that it will be the responsibility of the person who took the advance to submit the details of expenditure just after the completion of purpose for which the advance was taken. Failing this the total amount of advance would be recovered from the salary of next month or emoluments payable to him.

Scrutiny of records of test checked ZP Katni and Rewa and three Janpad Panchayats⁴ revealed that an amount of temporary advance of ₹19.42 lakh was outstanding from one to eleven years as on 31 March 2012. As detailed in **Appendix-1.5** these were not adjusted in books of accounts as per existing accounting rules of the ZP and Janpad Panchayats.

On this being pointed out CEOs stated that adjustment of Advances will be made soon. Updated position called for (May 2013) reply is awaited.

⁴ Khaknar, Burhanpur and Keshala.

1.14 Conclusion

- Budget and Annual Accounts were not prepared by the PRIs in prescribed formats.

(Paragraph 1.5.1)

- Details of receipts and expenditure of PRIs were not compiled at the PRD level.

(Paragraph 1.8)

- The State Government did not devolve the funds according to recommendations of Third SFC.

(Paragraph 1.9)

- Active pursuance was not made by DLFA for settlement of outstanding Paras of PAG's Audit Inspection Reports.

(Paragraph 1.11)

- Utilisation of grants transferred to the PRIs was not ensured.

(Paragraph 1.12)