

## CHAPTER-I

### Section 'A' An Overview of the Panchayati Raj Institutions

#### 1.1 Background

The 73<sup>rd</sup> Constitutional amendment gave Constitutional status to the Panchayati Raj Institutions (PRIs) and established a system of uniform structure, holding of regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-government. In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

In keeping with the 73<sup>rd</sup> Constitutional Amendment Act, 1992, the Manipur Panchayati Raj Act, 1994 was enacted to establish a system of two-tier 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 for greater participation of the people and more effective implementation of rural development programmes.

The two tier Panchayati Raj system envisaged in the Manipur Panchayati Raj Act, 1994 came into force with effect from 24.06.1994. The first general election for the ZPs and 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 State Profile

The total geographical area of Manipur is 22,327 sq. km. Manipur has 9 districts of which 5 districts are located in the hill areas and 4 districts are spread out in the valley. As per 2011 census, the total population of Manipur is 27,21,756 which constitutes 0.22 *per cent* of Indian population. The rural population of Manipur is 18,99,513 (69.79 *per cent*). The population growth in the decade of 2001-2011 was 18.65 *per cent* while in previous decade population growth was 24.86 *per cent*. A large proportion constituting 70 *per cent* of the total population of Manipur is engaged in agricultural and allied activities. The economy of Manipur continues to be agrarian. The demography of the State as per the 2011 census is given in the **Table 1.1** below:

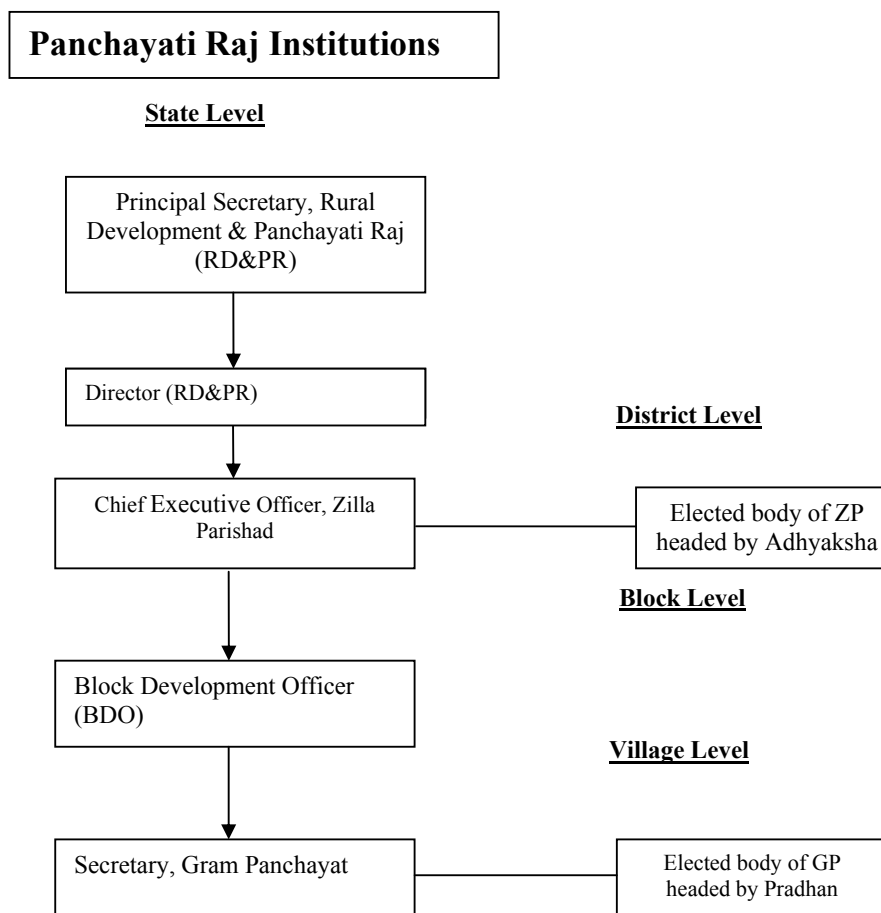
**Table 1.1: Statistics of the State**

Sl. No.	Indicator	Unit	Value
1	Population	1000s	2722
2	Density of population	Person in sq. Km.	122
3	Gender Ratio	Female per 1000 males	987
4	Gender Ratio (Rural)	-do-	966
5	Gender Ratio (Urban)	-do-	1038
6	Literacy	Percentage	79.85
7	Number of PRIs	Numbers	169
8	Number of Zilla Parishads	Numbers	4
9	Number of Gram Panchayats	Numbers	165

### 1.3 Organizational structure of PRIs

There are four ZPs and 165 GPs in the State. 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:



**1.3.1** The broad details of responsibility of PRIs functionaries are as under:

**Table 1.2: Details of responsibility of PRIs functionaries**

Authority	Functions
Principal Secretary (RD&PR)	Administers the overall monitoring and implementation of schemes relating to PRIs
Zilla Parishad (elected body)	Preparation of Plan for economic development and social justice of the District
Chief Executive Officer	Carries out the policies and directives of the ZP
Gram Panchayat (elected body)	Preparation of Annual Plan and Annual Budget
Panchayat Secretary	Keeping of records and maintenance of Accounts

**1.3.2 Standing Committees**

As per the Manipur Panchayati Raj Act, 1994, the PRIs shall constitute the following Standing Committees to perform the functions assigned to them:

**Table 1.3: Detail of Standing Committee**

Level of PRIs	Chief Political Executive	Standing Committees	Political Executives
GP	Pradhan	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Pradhan is the Chairman of the three committees
ZP	Adhyaksha	(a) General Standing Committee	Adhyaksha is the chairman of each committee
		(b) Finance, Audit and Planning Committee	
		(c) Social justice Committee	Up-Adhyaksha is the chairman
		(d) Education & Health Committee (e) Agriculture & Industries Committee (f) Works Committee	Chairman is elected from the members of these committees

Source: The Manipur Panchayati Raj Act, 1994

In case of GP, each committee shall consist of not less than three and not more than five members including the Pradhan and Up-Pradhan as the case may be. In ZP each Standing Committee shall consist of such number or members not exceeding five including the chairman elected by the

members for ZP from amongst the elected members. However, none of the PRIs have constituted the Standing Committees.

#### **1.4 District Planning Committee**

In pursuance of Article 243 ZD of the Constitution of India and Section 96 of the Manipur Panchayati Raj Act, 1994, the Government is required to constitute a District Planning Committee (DPC) in each district to consolidate the plans prepared by the GP and ZP in the district and to prepare a draft development plan for the district as a whole. The DPC was constituted in Thoubal and Bishnupur District on 30.08.1997; while in Imphal East and Imphal West District, it was constituted on 03.05.2003. As per the Manipur Panchayati Raj Act, 1994, the DPC shall consist of the following members:

1. Adhyaksha of the Zilla Parishad (Chairperson).
2. Members of the House of the People representing the district.
3. Members of Legislative Assembly who are elected in the district.
4. Such number of Councilors as may be specified by the government from the member of Councilors of Nagar Panchayat and Municipal Councils in the district and
5. Chief Executive Officer.

Although the DPCs were constituted, they were not made functional due to non-engagement of technical expert teams and secretarial support staff for monitoring and implementation of plans. No proper guideline was issued to GPs for preparation of plan. Also, there was no practice of preparation of perspective plans of GPs and ZPs. As such, none of the GPs and ZPs had forwarded development plan to the State Government.

#### **1.5 Financial Profile**

##### **1.5.1 Funding to PRIs**

The State and Central Governments funded the PRIs in the form of grants-in-aid and devolutions for general administration and other developmental activities. Funding by the State Government was on the lines of accepted recommendations of the Second State Finance Commission (SSFC) that took into account factors like population, literacy, health, irrigation, medical facilities *etc.* The Report of the SSFC covered a period of 5 (five) years, beginning 01.04.2001. The State Government had adopted the recommendations of the SSFC, and extended the period covered up to 31.03.2010.

The receipts of the PRIs mainly consisted of grants from the State Government towards Plan and Non Plan schemes, Central and State share of Central Plan Schemes, Centrally Sponsored Schemes and other receipts of its own.

Under Sections 40 and 70 of the Manipur Panchayati Raj Act, 1994, the GPs and ZPs are respectively empowered to impose annual tax on land and buildings within the local limits of the jurisdiction of PRI subject to such rule as may be made in this behalf by the Government. Further, subject to such maximum rate as the Government may prescribe, a PRI may levy fees and rate. The fund-wise source and its custody for ZPs and GPs are given in **Table 1.4** below:

**Tables 1.4: Fund flow mechanism in PRIs**

Nature of Fund	ZPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Assessees and users	Bank	Assess and users	Bank
Revenue grants	State Government	Bank	State Government	Bank
SFC				
State Plan Scheme				
CFC/CSS	GOI	Bank	GOI	Bank

CSS-Centrally Sponsored Scheme, CFC-Central Finance Commission, GOI-Government of India, SFC-State Finance Commission

### 1.5.2 Fund resources of PRIs

Fund resources of PRIs for the period 2006-07 to 2010-11 are shown in table below:-

**Table 1.5: Fund Receipts of Panchayati Raj Institutions**

Source of revenue		Amount (₹ in crore)				
		2006-07	2007-08	2008-09	2009-10	2010-11
Central Government	GOI share of CSS directly released to DRDA (SGRY, MGNREGS, IAY, RGSY)	14.41	12.38	68.48*	108.59 <sup>v</sup>	129.38 <sup>@</sup>
	Additional Central Assistance and FC grants released through State Budget (EFC, 12th FC, 13th FC)	2.11	6.35	4.26	8.51	5.60
	<b>Total</b>	<b>16.52</b>	<b>18.73</b>	<b>72.74</b>	<b>117.10</b>	<b>134.98</b>
State Government	Honorarium/Salary Grants	0.91	0.91	0.86	0.72	0.72
	Other Grants (SFC)	Nil	Nil	20.10	25.91	18.74 <sup>#</sup>
Grants (Head-2515-ORDP)	State share of CSS(RGSY, MGNREGS)	2.96	4.65	0.44	5.46	7.58 <sup>Ω</sup>
	<b>Total</b>	<b>3.87</b>	<b>5.56</b>	<b>21.40</b>	<b>32.09</b>	<b>27.04</b>
Grand total (Grants received from Central and State Government)		20.39	24.29	94.14	149.19	162.02
Own Source of Revenue (OSR)	Gram Panchayat	Nil	Nil	Nil	Nil	Nil
	Zilla Parishad	Nil	Nil	Nil	Nil	Nil

\*Includes SGRY funds ₹ 4.87 crore., <sup>v</sup> Includes SGRY funds of ₹ 1.36 crore, <sup>@</sup> Includes IWDP funds of ₹ 1.98 crore. <sup>Ω</sup> Includes IAY, RGSY and IWDP funds of ₹ 1.33 crore, <sup>#</sup> Being the amount released on the recommendation of the SSFC under the head 'Assignment & Compensation' during 2010-11. MGNREGS-Mahatama Gandhi National Rural Employment Guarantee Scheme, IAY-Indira Awas Yojana, RGSY-Rastriya Gramin Sabak Yojana, IWDP-Integrated Waste-land Development Programme and SGRY-Sampoorna Gramin Rozgar Yojana.

As compared to 2008-09 the grants from Central Government substantially increased during 2009-10 and 2010-11 due to release of more funds under Mahatama Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

### 1.5.3 Release of Second State Finance Commission Grants

The recommendations of the SSFC effective from 01.04.2001 were passed in the State Legislative Assembly during December 2005. As per the accepted recommendation of SSFC the State Government is required to transfer 10 *per cent* of the State's own revenue including the State's share in the Central taxes to the local bodies including District Councils. Of this 10 *per cent*, 34.38 *per cent* is to be transferred to PRIs. The release of SSFC grants by the State Government during the last three years from 2008-09 to 2010-11 to PRIs is shown in the table below:-

**Table 1.6: Release of Funds to PRIs under SFC grant**

(₹ in crore)

Sl.No.	Name of PRIs	Amount		
		Released during 2008-09	Released during 2009-10	Released during 2010-11
<b>A</b>	<b>Zilla Parishad</b>			
(i)	Imphal East	0.87	1.12	0.81
(ii)	Imphal West	0.59	0.76	0.55
(iii)	Thoubal	0.94	1.21	0.87
(iv)	Bishnupur Zilla Parishad	0.62	0.79	0.57
	<b>Total</b>	<b>3.02</b>	<b>3.88</b>	<b>2.80</b>
<b>B</b>	<b>Community Development Block</b>			
(i)	Imphal East-I	2.19	2.82	2.04
(ii)	Imphal East-II	2.23	2.87	2.08
(iii)	Jiribam	0.52	0.67	0.49
(iv)	Imphal West-I	2.32	3.00	2.17
(v)	Imphal West-II	1.02	1.32	0.96
(vi)	Thoubal	3.55	4.58	3.31
(vii)	Kakching	1.76	2.27	1.64
(viii)	Bishnupur	1.78	2.30	1.66
(ix)	Moirang	1.71	2.20	1.59
	<b>Total</b>	<b>17.08</b>	<b>22.03</b>	<b>15.94</b>
	<b>Grand Total</b>	<b>20.10</b>	<b>25.91</b>	<b>18.74</b>

In the above table the amounts pertaining to 2010-11 were released as per the guidelines contained in the recommendations of the SSFC under the head 'Assignment & Compensation' during 2010-11.

**1.6 Functions and powers vested with the PRIs**

The Manipur Panchayati Raj Act, 1994 has vested the PRIs with the 29 functions listed in the Eleventh Schedule of the Constitution of India. Out of these 29 functions, functions of 16 departments have been transferred to PRIs as of March 2011.

Further, transfer of functionaries of 5 departments and transfer of funds of 11 departments were not actually done. The details of activities of 16 departments to be transferred to ZPs and GPs are shown in **Appendix-I**. The status on the transfer of functions, functionaries and funds in respect of 16 Departments as on 31.03.2011 is shown in **Table 1.7 & 1.8** below:-

**Table 1.7: Transfer of Functions, Functionaries & Funds to ZPs**

Sl. No.	Department	Latest Status on functionaries transferred	Latest Status on fund 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 1.8: Transfer of Functions, Functionaries & Funds to GPs**

Sl. No.	Department	Latest Status on functionaries transferred	Latest Status on fund 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

The PRIs shall have necessary powers to carry out all the functions entrusted, assigned or delegated to them and, in particular, to exercise all powers specified under the Manipur Panchayati Raj Act, 1994. However, due to non-transfer/partial transfer of funds and functionaries the PRIs were not able to perform the functions assigned to them.

Thus, transfer of funds, functions and functionaries to PRIs was not adequate and effective to enable them to function as institutions of local self-government.

### **1.7 Audit Arrangement**

In terms of Sections 44(1) and 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 and ZPs have not been separately conducted by the Directorate 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 (BDOs). The Directorate also informed that audit of accounts upto March 2010 of all BDOs except BDO of Imphal West were conducted.

The Accountant General (Audit), Manipur, Imphal conducted audit of PRIs under Sections 14(1) & 20(1) of the Comptroller & Auditor General's (C&AG's) DPC Act, 1971. The State Government in August 2005 entrusted the audit of PRIs under Technical Guidance and Support



(TGS) arrangement to the Comptroller and Auditor General of India (C&AG) under Section 20(1) of the C&AG's (DPC) Act, 1971. However, no amendments were made so far in the Manipur Panchayati Raj Act (March 2011) to incorporate such entrustment.

### **1.8 Audit Coverage**

Test audit of the accounts of 95 PRIs viz., Bishnupur Zilla Parishad for the year 2009-10 and 94 Gram Panchayats for the year from 2006-07 to 2009-10 was conducted during 2010-11 (**Appendix-II 'A'**).

### **1.9 Conclusion**

PRIs have been set up in the State in conformity with the 73<sup>rd</sup> Amendment Act of the Constitution of India. The main thrust of the Act is to enable these rural local bodies to function as institutions of self-government (ISG). An effective mechanism to enable them to become ISG is through the effective devolution of the Funds, Functions and Functionaries. However, only 16 out of 29 functions listed in the Eleventh Schedule of the Constitution have been transferred till date. Thus, transfer of funds and functionaries to ZPs and GPs was not adequate and effective.

DPCs though constituted have remained non-functional due to non-engagement of technical expert teams and secretarial support staff for monitoring and implementation of plan. Due to this, consolidated and integrated development plans of the district were not prepared.

**Section 'B'**  
**Financial Reporting**

**1.10 Framework**

The Gram Panchayat Secretary and Chief Accounts Officer of ZP are responsible for all matters relating to the accounts of GP and ZP respectively. Every person in possession of money, accounts, records or other property pertaining to a GP or ZP shall on requisition in writing forthwith hand over such money or deliver such accounts, records or other properties to the Chief Executive Officer (CEO) or the person authorized in the requisition to receive the same. The best practice in matters relating to drawal of funds, form of bills, incurring of expenditure and rendering of accounts by GPs and ZPs are governed by the provision of Manipur Panchayati Raj Act, 1994, other Departmental Manuals, standing orders and instructions.

**1.11 Financial Reporting issues**

**1.11.1 Non-Maintenance of Records**

As per Sections 43 and 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 is mandatory for each PRI to prepare and maintain books of accounts in the prescribed form. However, test-check of one ZP and 94 GPs revealed non-maintenance of the following records/books of accounts:

- Principal Cash Book;
- Appropriation Register;
- Asset Register for movable and immovable properties;
- Stock and issue Register;
- BPL Register; and
- Grants-in-aid Register.

Due to non-maintenance of the above vital accounting records, actual position of utilization of funds, execution of various schemes, stock and stores and assets created by execution of development schemes could not be ascertained. Further, due to the prevalent deficiencies as observed, the implementation of schemes by the PRIs lacked transparency. Thus, the accountability of the PRIs' authorities could not be ensured.

### **1.11.2 Non-Preparation of Bank Reconciliation Statement**

Bank Reconciliation is a procedure which aims to reconcile the bank balance as shown in the Cash Book of the local body with that of the bank balance as per the Bank Pass Book/Statement received from the bank. The Bank Reconciliation should be carried out on a monthly basis or at such other shorter intervals as the body or authority may decide.

However, no Bank Reconciliation Statement was prepared in all the test-checked PRIs. The possibility of theft, defalcation and misappropriation of funds could not be ruled out due to non-reconciliation of Cash Books and Bank Pass Book balances. Thus, the authenticity of cash balances as per Cash Books of all the test-checked PRIs could not be ascertained in the absence of reconciliation of balances with Bank Pass Book.

### **1.11.3 Non-preparation of Budget Estimates**

As per provisions of Sections 42 and 72 of the Manipur Panchayati Raj Act, 1994, Annual Budget of GPs and ZPs showing the estimated receipts and disbursement for the following year is required to be prepared and submitted to the next higher authority for approval. If the approval of the higher authority is not received within such time as may be prescribed, or by the last day of the year, whichever is earlier, the budget shall be deemed to have been approved by the prescribed authority. The Act further states that no expenditure shall be incurred unless the budget is approved by the prescribed authority. Test-check of the records of 94 GPs and one ZP revealed that neither the ZPs nor the GPs have prepared the budget of their estimated receipts and disbursement for the period under audit. Despite non-preparation of budget, the State Government was releasing funds to PRIs.

In the absence of the approved Budget Estimates, the expenditure incurred by the PRIs was irregular and the probable receipts and expenditures for the financial year could not be ascertained and no financial control could be exercised in the GPs and ZPs by the State Government.

### **1.11.4 Maintenance of Accounts**

Model Accounting Structure (MAS), 2009 for PRIs developed by the Ministry of Panchayati Raj (MoPR), Government of India in consultation with the Comptroller and Auditor General of India was forwarded to the Government of Manipur by MoPR in 2009 for adoption. However, the State Government is yet to adopt the MAS as on March 2011. As such,

none of the test-audited PRIs maintained their accounts in MAS 2009 as of March 2011.

#### **1.11.5 Irregularities in maintenance of Cash Book**

While maintaining the 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 subordinates 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, audit noticed that the above checks were not exercised in maintenance of Cash Book in all the test-checked PRIs, without which possibilities of loss, defalcation, embezzlement *etc.*, cannot be ruled out.

#### **1.11.6 Conclusion**

Proper financial reporting is the key element for accountability. The PRIs entrusted with public resources have the responsibility to manage these resources with utmost prudence. For this, budgets have to be prepared, accounts have to be maintained and monitoring of expenditure has to be done as per relevant Acts/guidelines/rules. It was noticed that none of the test-audited PRIs prepared Budget estimates nor prepared Accounts, and important Registers. Authenticity of cash balances as per the Cash Books of all the test-checked PRIs could not be ascertained in the absence of reconciliation of balances with Bank Pass Book. Thus, there were deficiencies in the maintenance of primary financial records like Cash Book, Receipt and Payment Accounts *etc.* The deficiency in maintenance of records resulted in absence of credible financial reporting.