

CHAPTER 3

AN OVERVIEW OF ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

3.1 Introduction

Government of India (GoI) enacted the Seventy third Constitutional Amendment Act in 1992 (Act) to empower the local self-governing institutions viz. *Panchayati Raj* Institutions (PRIs) to ensure a more participative governance structure in the country. The amended Act envisaged decentralisation of the power to the rural self-governing bodies, viz., *Gram Panchayat* (at the village level), *Kshetra Panchayat* (at the intermediate level) and *Zila Panchayat* (at the district level) which till then were vested in the State Government. The system of PRIs aimed at increasing the participation of people in local governance and effective implementation of rural development programmes. The overall supervision, co-ordination and planning of developmental schemes vested in the *Zila Panchayat*. The GoI further entrusted the implementation of key socio-economic developmental programmes to PRIs and devolved funds through successive Finance Commissions.

The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as institutions of self-government and implement schemes for economic development and social justice including those enumerated in the Eleventh and Twelfth Schedules of the Constitution.

Consequently, The UP *Panchayat Raj* Act, 1947 and Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam*, 1961 were amended in 1994 and Rules framed thereunder.

3.2 State Profile

Uttar Pradesh is the fifth largest State in the country in terms of size and spans an area of 2.41 *lakh* square kilometer. As per the Census, 2011, the total population of the State was 19.98 crore of which 77.73 *per cent* resided in rural areas. The comparative demographic and development profile of the state *vis-a-vis* the national profile is given in **Table 1**.

Table 1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	Crore	19.98	121.07	1 st
Population density	Per km ²	829	382	2 nd
Rural population (per cent)	Per cent	77.73	68.84	-
Number of PRIs	Number	52807	246062	1 st
Number of Zila Panchayats (ZPs)	Number	72	543	1 st
Number of Kshetra Panchayat (KPs)	Number	821	6087	2 nd
Number of Gram Panchayats (GPs)	Number	51914	239432	1 st
Gender ratio	Females per 1000 males	912	943	23 rd
Literacy(rural)	Per cent	67.68	74.04	23 rd

(Source: Thirteenth Finance Commission, Director, Panchayati Raj Lucknow and Census Report 2011)

3.3 Audit Arrangement

3.3.1 Primary Auditor

The Chief Audit Officer, Co-operative Societies and Panchayats, is the primary auditor for all the three tiers of PRIs.

3.3.2 Audit Mandate of the CAG of India

The Eleventh Finance Commission recommended exercising of TGS over the proper maintenance of accounts of PRIs and their audit by the CAG. As per para 10.121 and 10.122 of the recommendations of Thirteenth Finance Commission, the CAG is to be entrusted with TGS for all Local Bodies for all states to provide a credible assurance from the audit of accounts.

- (i) Audit of Annual Accounts (Receipt and Expenditure Accounts) of PRIs is conducted by the CAG of India under Section 14 of CAG's (DPC) Act, 1971. The result of audit is reported to Director, PRI, Chief Audit Officer, Co-operative Societies and Panchayats and the State Government (to the secretaries of the Government departments).
- (ii) TGS to the audit of PRIs (to Director and Chief Audit Officer, Co-operative Societies and Panchayats) is given by the CAG of India under Section 20 (1) of CAG's (DPC) Act, 1971.
- (iii) The product of audit i.e. Technical Inspection Reports of PRIs are sent to PRI (Director), State Government (to the Secretaries of the Government Departments) and Chief Audit Officer, Co-operative Societies and Panchayats for pursuance of action to be taken by PRIs.

The audit objections were communicated to the Heads of the Offices, Director,

Panchayati Raj and Chief Audit Officer, Co-operative Societies and *Panchayats*. Details of audit objections are given in **Table 2**.

Table 2: Details of audit objections

(₹ in lakh)

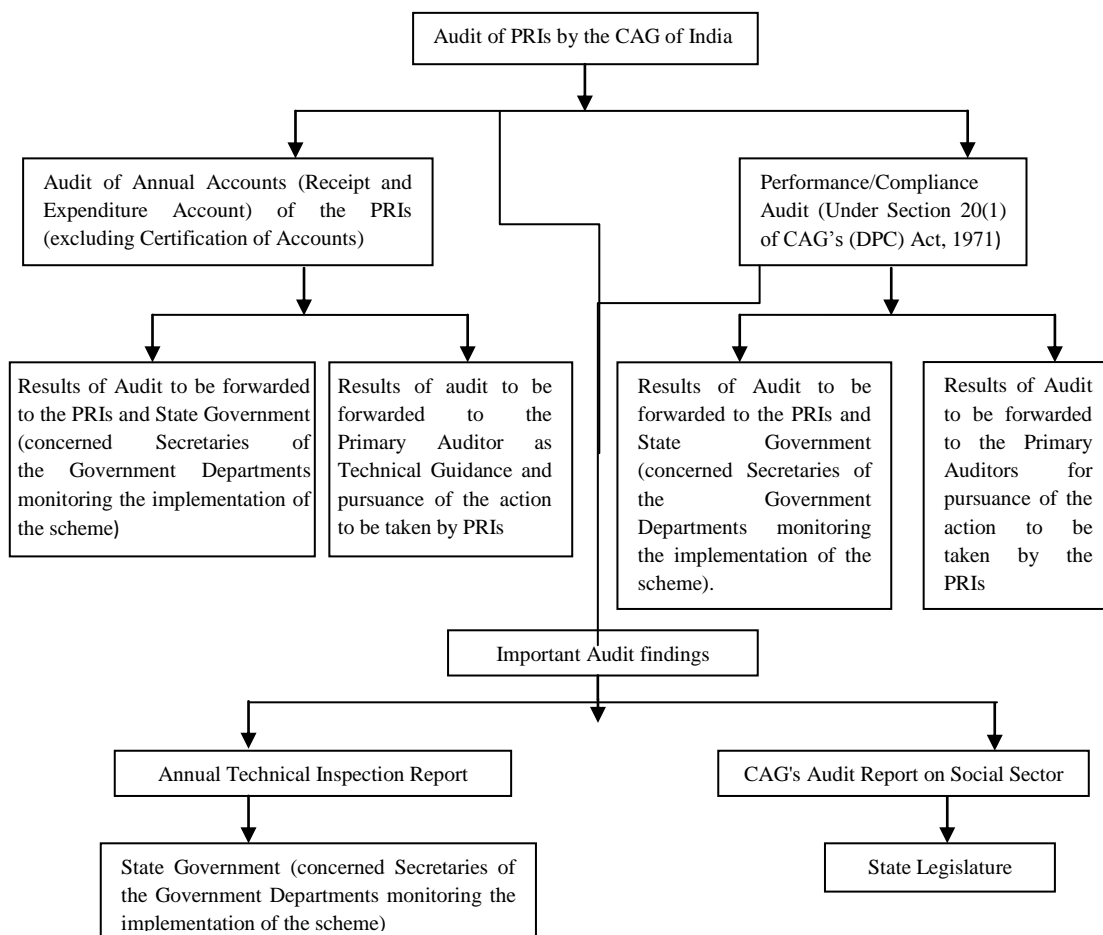
Sl. No.	Year	Opening Balance of Paras		Paras added during the year		Paras settled during the year		Outstanding paras	
		No.	Value	No.	Value	No.	Value	No.	Value
1	2008-09	8,146	28,128.92	1,779	22,615.28	1	4.68	9,924	50,739.52
2	2009-10	9,924	50,739.52	2,775	38,875.75	5	79.43	12,694	89,535.84
3	2010-11	12,694	89,535.84	1,308	16,219.90	1	0.27	14,001	1,05,755.47
4	2011-12	14,001	1,05,755.47	2,033	24,237.45	-	-	16,034	1,29,992.92
5	2012-13	16,034	1,29,992.92	482	22,316.33	-	-	16,516	1,52,309.25

(Source: Register of Audit Inspection Reports)

The table shows that 16,516 paras (money value: ₹ 1,523.09 crore) were outstanding at the close of 2012-13. It is also seen that only seven paras were settled pertaining to the period 2008-11. No para was settled pertaining to 2011-13 which indicates that the entities were not responsive to audit observations.

On this being pointed out, Chief Audit Officer, Co-operative Societies and *Panchayats* stated (August, 2013) that necessary directions have been issued to regional officers to expedite compliance.

Chart showing procedure of audit of PRIs is depicted below:



3.4 Maintenance of Accounts

3.4.1 Adoption of account formats prescribed by the Comptroller and Auditor General of India

PRIs maintain their accounts in the formats prescribed under Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* Act, 1961. The Eleventh Finance Commission recommended exercising control and supervision over the maintenance of accounts of all the three tiers of PRIs by the CAG of India. The CAG of India and Ministry of *Panchayati Raj*, GoI recommended Model Accounting Structure for PRIs in 2009. PRIASoft Accounting Software prescribed by the Ministry of *Panchayati Raj*, has been adopted by the State Government and is in the process of implementation in all the three tiers of PRIs. Necessary amendments (2011) through the seventeenth amendment in UP *Panchayati Raj* Rules, 1947 and sixth amendment in UP *Zila Panchayat* and *Kshetra Panchayat* (Budget and General Accounts) Rules, 1965 have been made. Consequently, accounts are being partly uploaded on PRIASoft in all the levels of PRIs since 2010-11.

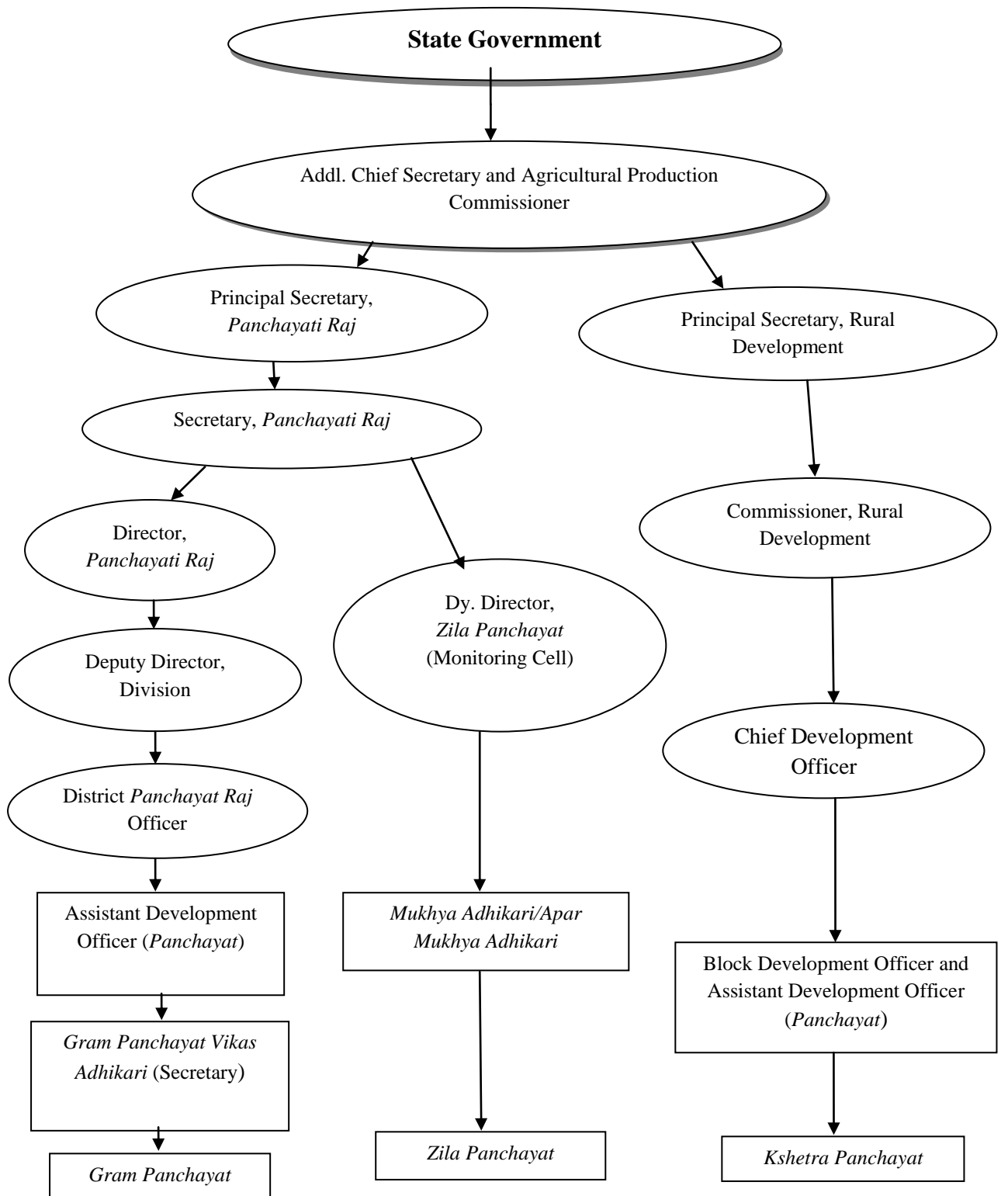
3.4.2 Non-reconciliation of Cash Balances

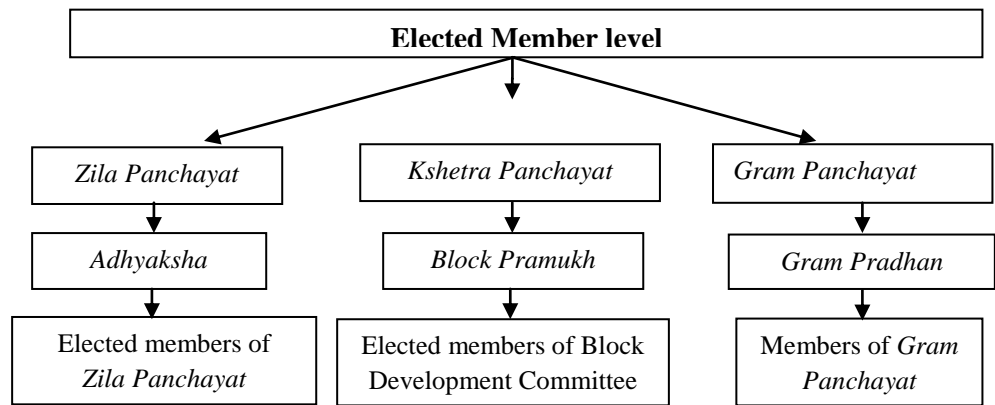
Section 84(2) of UP *Zila Panchayat* and *Kshetra Panchayat* (Budget and General Accounts) Rules, 1965 provides that each item of receipt and expenditure should be compared with the treasury/ bank statements at the end of each month and differences, if any, should be reconciled.

Test-check of bank statement and cash book maintained by the audited entities (2010-12) revealed that five *Kshetra Panchayats* had un-reconciled differences of ₹ 83.11 lakh as on 31 March 2011 and two *Zila Panchayats* and two *Kshetra Panchayats* had un-reconciled differences of ₹ 2.98 crore as on 31 March 2012 (*Appendix 3.1*).

3.5 Organisational structure of *Panchayati Raj* Institutions

Social sector Programmes/Schemes are implemented by the PRIs, Parallel Bodies and Line Departments. Accordingly, Linkages of PRIs, Parallel bodies and line departments with Administrative Setup in Blocks, District and State level by way of organisational chart are given below:





Structure of Line Departments

Name of Department	Rural Development	Panchayati Raj	Social Welfare	Backward Class Welfare	Minority Welfare	Women & Child Welfare	Planning
Chief Controlling Officer	PS, Rural Development (RD)	PS, Panchayati Raj (PR)	PS, Social Welfare (SW)	PS, Backward Class welfare (BCW)	PS, Minority Welfare (MW)	PS, Women & Child Welfare	PS, Planning
Controlling Officer Level	Commissioner RD	Director, PR	Director, SW	Director, BCW	Director, MW	Director, Child Development & Nutrition	Director, Economics & Statistics (E&S)
Sanctioning Officer in District	CDO	CDO	CDO	CDO	CDO	CDO	CDO
DDO Level	District Development Officer	DPRO	DSWO	DBCWO	DMWO	DPO	DE&SO

Abbreviations: DBCWO-District Backward Class Welfare Officer, DE&SO-District Economics & Statistics Officer, DMWO- District Minority Welfare Officer, DPO-District Programme Officer, DSWO-District Social Welfare Officer, PS-Principal Secretary.

Structure of the Parallel Bodies (main schemes)

	MGNREGS	NRHM	SSA
Government level	State Employment Guarantee Council headed by Agricultural Production Commissioner (APC)	State Health Mission (SHM)	State Implementing Society (SIS)
	Principal Secretary, Rural Development	State Health Society (SHS)	
Department level	Commissioner, Rural Development (known as Rural Employment Commissioner)	Principal Secretary– Health & ex-officio Head-Executive Committee of SHS	State Project Director (SPD)
		Mission Director	
District level	District Rural Development Agency (DRDA)	District Health Society (DHS)	District Education Planning Committee
		District Health Planning and Monitoring Committee	
		District Project Officer-NRHM	
Block level	Programme Officer	Block Health Planning and Monitoring Committee	Block Development Committee
Village level	Vigilance Monitoring Committee	Village Health and Sanitation Committee	Village Education Committee

3.6 Budgeting and Budgetary Process

Budgeting and budgetary process entails preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it is kept within the authorised grants or appropriations.

With the aforesaid objective, each PRI is to prepare the annual budget in terms of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Manual*¹. It was noticed in audit during 2011-13 that the annual budget in test-checked² *Kshetra Panchayats* and *Gram Panchayats* was not being prepared.

3.7 Standing Committees

Brief introduction on the working of PRIs and various standing committees involved in financial matters and implementation of schemes is given in **Table 3:**

Table 3: Details of Standing Committees

Level of PRI	Standing committee Headed by	Names of the Standing Committees	Roles and responsibilities of the Standing Committees
<i>Zila Panchayat</i>	<i>Apar Mukya Adhikari/ Adhyaksha, Zila Panchayat</i>	(i) <i>Niyojan Avam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Avam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandhan Samiti</i>	As per UP Government Notification No. 4430/33-1-99 SPR/99- Dated: 29 July 1999 functions are enumerated in (Appendix 3.2)
<i>Kshetra Panchayat</i>	<i>The Pramukh</i>	(i) <i>Niyojan Avam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Avam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandh Samiti</i>	---As above---
<i>Gram Panchayat</i>	<i>The Pradhan</i>	(i) <i>Niyojan Avam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Avam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandh Samiti</i>	As per UP Government Notification No. 4077/33-2-99-48G/99 Dated:29 July 1999 Functions are enumerated in (Appendix 3.2)

(Source: Director, *Panchayati Raj*)

3.8 District Planning Committee

Article 243 ZD of the Constitution of India (Constitution) inserted vide Seventy Fourth Constitutional Amendment Act in 1993 states that "There shall be constituted in every State at the district level a District Planning Committee (DPC) to consolidate the plans prepared by the *Panchayats* and the Municipalities in the district and to prepare a draft development plan for the district as a whole". In line with the above amendment the Government of Uttar Pradesh (the Government) enacted the Uttar Pradesh District Planning Committee Act, 1999 (Act) through Act no. 32 of 1999 in July 1999. DPCs were constituted in April 2008 and made functional from December 2009.

¹ Section 110 and 115.

² 11 districts: 54 KPs and 340 GPs in the year 2011-12, 21 district: 52 KPs and 159 GPs in the year 2012-13.

Under Sections 63 and 86 of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam*, 1961, the ZPs were to prepare a development programme for each financial year for the district as a whole, incorporating the development plan for KPs and GPs and submit it for approval to the DPC.

3.8.1 Role of District Planning Committee

Under the provision of the Act, DPCs were required to perform *inter-alia* the following role:

- (i) To assess the local needs and objectives of the district within the framework of National and State plan objectives.
- (ii) To collect, compile and update the information of facilities available in *Gram Panchayats* (GPs), *Kshetra Panchayats* (KPs) and *Zila Panchayats* (ZP) regarding human and natural resources and to prepare integrated and comprehensive five year or annual development plan for rural and urban areas of the district on the subjects enshrined in Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Act*, 1961 and Uttar Pradesh *Nagar Palika Adhiniyam*, 1916 or Uttar Pradesh *Nagar Nigam Adhiniyam*, 1959 respectively in order to address local needs.
- (iii) To monitor, review and evaluate the projects being executed under decentralised governance of the district including centrally sponsored scheme and Members of Parliament and Members of State Legislative Assembly Local Area Development funds.
- (iv) To submit progress report of the projects included in the district plan to the State Government regularly.

3.9 Status of devolution of funds, functions and functionaries to PRIs

Eleventh schedule of the Constitution of India empowered the State Legislature to make laws for endowing PRIs with such powers and authority which would enable them to function as institutions of self Government. Major elements of devolution were functions, funds and functionaries to the PRIs accompanied by administrative control over staff and freedom to take administrative and financial decisions at the local level. Accordingly, the UP State Legislature amended the UP *Panchayat Raj Act*, 1947 (UPPR Act) and UP *Kshetra Panchayat* and *Zila Panchayat Act*, 1961 (UPKP & ZP Act) by UP Act no. 9 of 1994 and devolved powers and functions to GPs as specified in section 15 of the UPPR Act and to KPs and ZPs as specified in Schedule I and Schedule II to UP KP & ZP Act.

Transfer of functions, funds and functionaries have been commented upon in Performance Audit on Decentralised Governance and Status of Maintenance of Accounts in PRIs, in para 4.1.7 of this Report.

3.10 Financial Profile

3.10.1 Fund flow to PRIs

The resource base of PRIs consists of Own receipts, SFC grants, CFC grants, State Government grants and Centrally Sponsored Schemes for maintenance and development purposes. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship scheme are given in **Table 4A & 4B**.

Table 4A: Fund Flow: Source and custody of funds in PRIs

Nature of fund	ZPs		KPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own Receipt	Users	<i>Zila Nidhi</i>	NA	<i>Kshetra Nidhi</i>	Users	<i>Gram Nidhi</i>
State Finance Commission	State Government	<i>Zila Nidhi</i>	State Government	<i>Kshetra Nidhi</i>	State Government	<i>Gram Nidhi</i>
Central Finance Commission	Government of India	<i>Zila Nidhi</i>	Government of India	<i>Kshetra Nidhi</i>	Government of India	<i>Gram Nidhi</i>
Centrally Sponsored Scheme	Government of India	<i>Zila Nidhi</i>	Government of India	<i>Kshetra Nidhi</i>	Government of India	<i>Gram Nidhi</i>

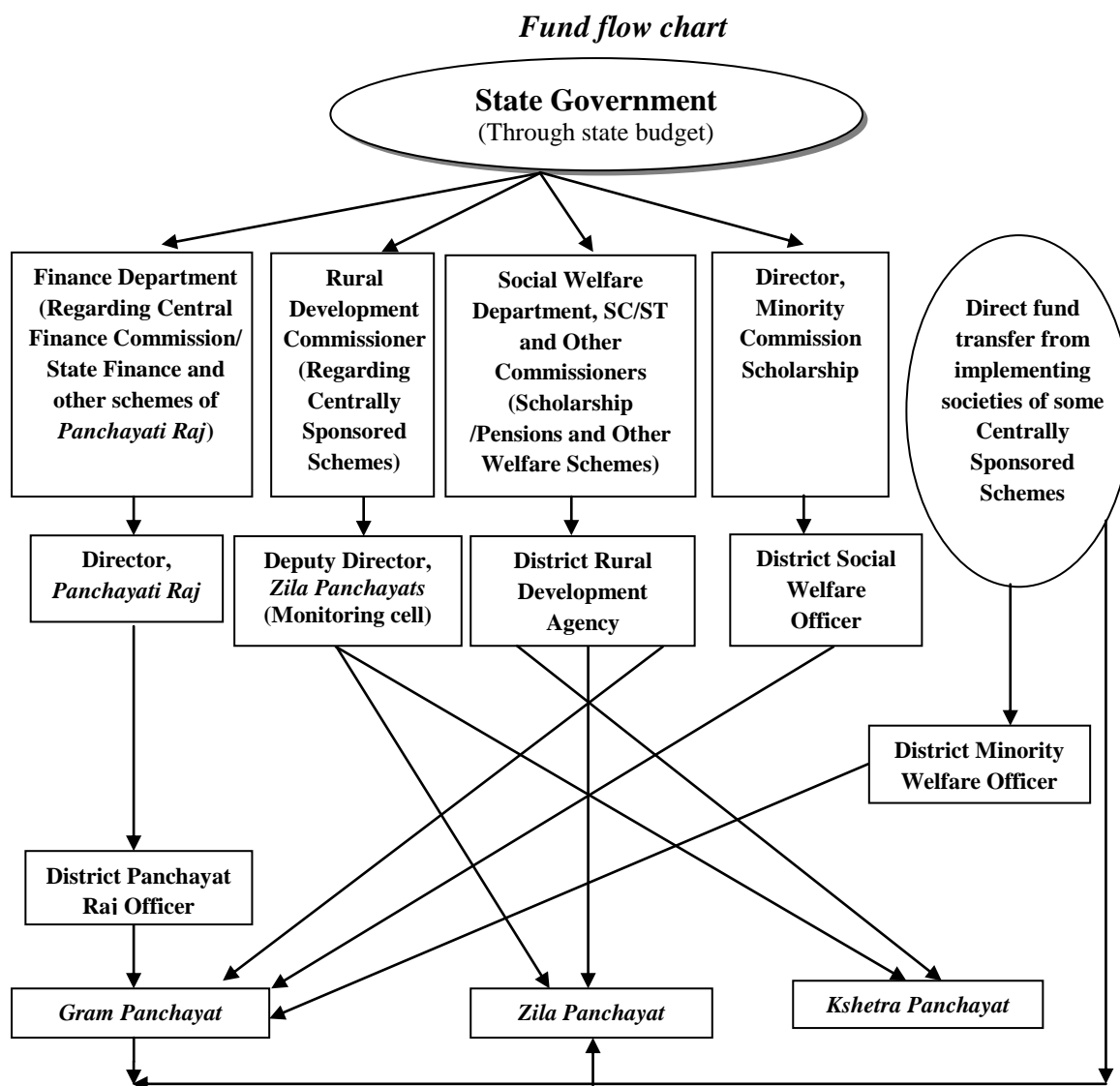
(Source: Director, Panchayati Raj)

Table 4B: Fund flow arrangements in major Centrally Sponsored flagship Schemes

Sl. No.	Scheme	Fund flow Arrangement
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	The GoI and GoUP transfer their respective shares of MGNREGS funds in a Bank Account, called State Employment Guarantee Fund (SEGF), set up outside the State Accounts. Commissioner Rural Development is the custodian of SEGF and administers onward transfer of funds from it to district and sub-district level.
2	<i>Sarva Shiksha Abhiyan (SSA)</i>	The GoI and GoUP transfer their shares of SSA funds in yet another Bank Account of the State Implementing Society (SIS) outside the State Accounts. SIS is a Society set up by the GoUP for implementation of SSA. It is headed by a State Project Director (SPD), who is a senior officer of the GoUP. Finance Controller and Senior Finance Officer of SSA are joint custodians of SSA Bank Account Funds at State level. SPD is the administrator of funds transfers to DPO-SSA, established by the GoUP for each district within SIS. At the district level, DPO and Assistant Accounts Officer in DPO's Office are joint custodians of the Bank Account.
3	<i>Indira Awas Yojna (IAY)</i>	The GoI transfer their share directly to DRDA through cheques. DRDA draws GoUP's share from district treasury and keep both in a Bank Account. Project Director operates the Bank Account and is administrator of the fund. He transfers the fund to the beneficiaries account.
4	Rural Drinking Water Supply Programme (RDWSP)	For Accelerated Rural Water Supply Programme, the GoUP transfer funds to Uttar Pradesh Jal Nigam (UPJN) centrally at Lucknow for the entire State. UPJN transfers funds to its District units. For other Rural Water Supply Schemes, DDO draws funds from District Treasury out of allotments placed at his disposal, and gives it to UPJN unit in the districts for execution.
5	Total Sanitation Campaign (TSC)	GoI transfer their share directly in Bank account of District Water and Sanitation Mission set up in each District. DPRO, ex-officio Secretary of the Mission, draws GoUP's share from District treasury on the basis of allotment received from GoUP and deposits it too in the Mission's Bank Account.

Flow of revenues

For execution of various development schemes, PRIs receive grants from the GoI and the State Government. Grants are also received as per recommendations of the Central and State Finance Commissions for enhancing the service delivery of PRIs. In addition, PRIs also collect tax and non-tax revenue out of their own resources, as already mentioned in Table 4 A.



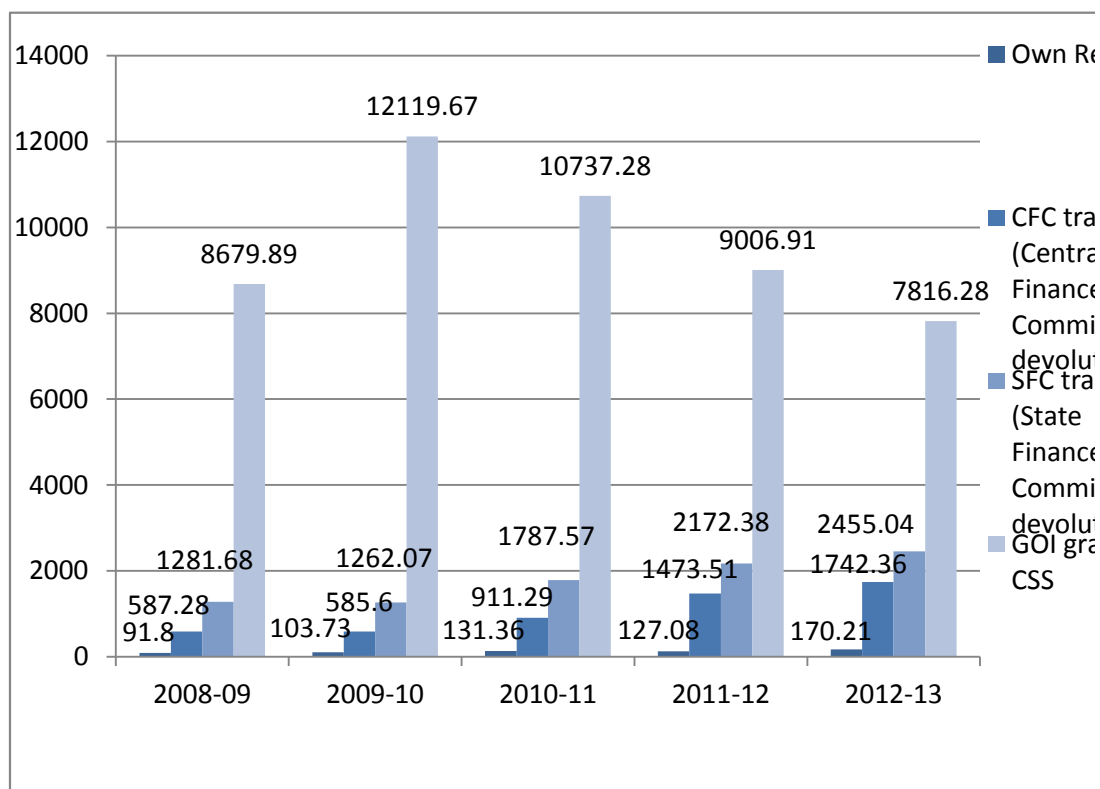
3.11 Aggregate Receipts

The position of aggregate grants received by PRIs under the recommendations of the CFC, the SFC, revenues realised from their own sources by charging rent, taxes, fees, etc. from the people through sources as envisaged in Rule 37 of UP PR Act 1947 (*Appendix 3.3*) and grants released under Centrally Sponsored Schemes for rural development during 2008-13 (*Appendix 3.4*) is given in Chart and **Table 5** below:

Resources: Trends and Composition

Time Series Data on Resources of PRIs

(₹ in crore)



There is an increasing trend in own receipts during 2008-09 to 2010-11. It declined during 2011-12.

Table 5: Revenue realised from own resources

(₹ in crore)

Panchayati Raj Institutions (number in bracket)	2009-10		2010-11		2011-12		2012-13	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
Zila Panchayats (72)	103.26	100.60	115.02	128.82	138.68	127.08	148.47	160.19
Gram Panchayats (51,914)	4.42	3.13	4.96	2.54	NA	NA	NA	10.02
Total	107.68	103.73	119.98	131.36	138.68	127.08	148.47	170.21

(Source: Director, Panchayati Raj and Deputy Director, Zila Panchayat Monitoring cell, Lucknow)

(NA: Not available)

3.11.1 Devolution of State Finance Commission grant

One of the recommendations of the Second SFC was that *five per cent* of the net proceeds of total tax revenue should be devolved to PRIs. Considering the importance and need of PRIs, the Third SFC increased it to *5.5 per cent* of the net proceeds of total tax revenue for devolution to PRIs. The devolution of funds and actual releases there against to PRIs by the State Government during 2008-13 is given in **Table 6**.

Table 6: Devolution of funds vis-a-vis Net proceeds**(₹ in crore)**

Sl. No.	Year	Net proceeds of tax revenue of State Government	Funds to be devolved	Funds actually devolved	Shortfall (-)/ Excess (+)	Per cent
1	2008-09	28,659	1,433	1,282	(-) 151	(-) 11
2	2009-10	33,878	1,694	1,262	(-) 432	(-) 26
3	2010-11	41,110	2,261	1,788	(-) 473	(-) 21
4	2011-12	52,613	2,894	2,172	(-) 722	(-) 25
5	2012-13	58,098	3195	2455	(-) 740	(-) 23
Total		2,14,358	11,477	8,959	(-) 2,518	(-) 22

(Source: Finance Accounts and Director, Panchayati Raj Lucknow, Dy. Director Zila Panchayat Monitoring Cell Lucknow, Commissioner, Rural Development Lucknow)

There was an overall short devolution of funds (₹ 2,518 crore) during 2008-13 which ranged between 11 and 26 per cent. The maximum shortfall was during 2012-13 when only ₹ 2,455 crore was devolved against ₹ 3,195 crore.

3.12 Utilisation of funds

3.12.1 Utilisation of grants received under Central Finance Commission

The position of funds available under Twelfth Finance Commission and Thirteenth Finance Commission and utilisation thereof is given in **Table 7**.

Table 7: Utilisation of grants received under Central Finance Commission**(₹ in crore)**

Year	Total grants available	Grant utilised	Grants not utilised		
			Lapsed	Balance	Total
2008-09	587.28	587.10	0.18	0.00	0.18
2009-10	585.60	580.25	5.35	0.00	5.35
2010-11	911.29	911.29	0.00	0.00	0.00
2011-12	1,473.51	559.61	0.00	913.90	913.90
2012-13	1,742.36	1,498.45	0.00	243.91	243.91

(Source: Director, Panchayati Raj, Lucknow)

Out of ₹ 1,172.88 crore, ₹ 1,167.35 crore of grants were utilised and ₹ 5.53 crore lapsed during 2008-10. Further, maximum amount of grants remained unutilised at the end of 2011-12 and 2012-13.

3.12.2 Utilisation of grants received under State Finance Commission

The status of grants available under SFC, utilisation and non-utilisation thereof during 2008-13 is given in **Table 8**.

Table 8: Utilisation of Grants received on the recommendation of State Finance Commission

(₹ in crore)

Sl. No.	Year	Grants received during year	Grants utilised	Grants not utilised		
				Lapsed	Balance	Total
1	2008-09	1,281.68	1,280.71	0.97	0.00	0.97
2	2009-10	1,262.07	1,262.07	0.00	0.00	0.00
3	2010-11	1,787.57 ³	1,787.57	0.00	0.00	0.00
4	2011-12	2,172.37	2,077.44	4.22	90.71	94.93
5	2012-13	2,455.04	1,020.34	0.00	1,434.70	1434.70

(Source: Director, Panchayati Raj, Deputy Director, Zila Panchayat Monitoring Cell, Lucknow)

Note- Different figures were provided by Director, Panchayati Raj Lucknow.

It is evident from the above table that ₹ 0.97 crore lapsed during 2008-09 and ₹ 4.22 crore during 2011-12 and ₹ 90.71 crore and ₹ 1,434.70 crore were unutilised at the end of 2011-12 and 2012-13.

3.12.3 Grants for implementation of Centrally Sponsored Schemes

The GoI sponsored schemes for rural development are executed by PRIs at the grass root level. The grant released by the GoI during 2011-12 and 2012-13 to the State Government for their implementation is given in **Table 9**.

Table 9: Grant for implementation of Centrally Sponsored Schemes

(₹ in crore)

Names of Centrally sponsored schemes and periods	Grants released		
	Central	State	Total
2011-12			
<i>Swaran Jayanti Gram Swarajgar Yojana</i>	364.33	128.04	492.37
<i>Indira Awas Yojana</i>	1,120.34	412.09	1,532.43
National Rural Employment Guarantee Yojana	4,240.48	471.11	4,711.59 ⁴
<i>Pradhan Mantri Gramin Sadak Yojana</i>	473.13	-	473.13
Rural Drinking Water Scheme	749.23	821.08	1,570.31
National Health Insurance Scheme	192.35	32.75	225.10
Bio gas	1.98	-	1.98
Total	7,141.84	1,865.07	9,006.91
2012-13			
<i>Indira Awas Yojana</i>	883.21	292.32	1,175.53
Rural Drinking Water Scheme	1,151.87	879.81	2,031.68
Bio gas	0.66	-	0.66
Mahatma Gandhi National Rural Employment Guarantee Scheme	2,264.86	251.65	2,516.51
Backward Region Grant Fund*	207.65	-	207.65
Mid-Day Meal	1,258.50	368.57	1,627.07
Total Sanitation Campaign	256.85	0.33	257.18
Total	6,023.60	1,792.68	7,816.28

(Source: Commissioner, Rural Development Lucknow; Chief Executive Officer, RSBY, Lucknow)

*The released amount contains figures of PRIs and ULBs.

³ Differs from Annual Technical Inspection Report 2010-11.

⁴ ₹ 3,889.15 crore released to PRIs, ₹ 822.44 crore released to other line departments.

The GoI released substantial amount for rural development of the State through centrally sponsored schemes. Maximum amount of ₹ 4,240 crore was released by the GoI during 2011-12 for providing employment under Mahatma Gandhi National Rural Employment Guarantee Scheme. Out of this ₹ 3,889.15 crore was released to PRIs and rest was provided to the other line departments.

3.13 Accountability framework by PRIs (Internal Control System)

A large number of PRIs (unit year) remained unaudited due to non-submission of records during 2010-13. The details of audit of PRIs proposed, actually audited and in arrears are given in **Table 10**.

Table 10: Position of units proposed, audited and those lying in arrear

Name of PRIs	Units to be audited		Units audited		Arrear (per cent in bracket)	
	Proposed for current year	Arrear of previous years	Against current	Against arrear	Against current	Against arrear
2010-11						
<i>Zila Panchayats</i>	70	178	30	36	40 (57)	142 (80)
<i>Kshetra Panchayats</i>	809	6,720	58	194	751 (93)	6,526 (97)
<i>Gram Panchayats</i>	51,944	2,26,960	19,820	15,485	32,124 (62)	2,11,475 (93)
2011-12						
<i>Zila Panchayats</i>	71	182	30	33	41 (58)	149 (82)
<i>Kshetra Panchayats</i>	819	7,277	115	402	704 (86)	6,875 (94)
<i>Gram Panchayats</i>	51,257	2,43,599	24,929	19,578	26,328 (51)	2,24,021 (92)
2012-13						
<i>Zila Panchayats</i>	71	190	48	68	23 (32)	122 (64)
<i>Kshetra Panchayats</i>	813	7,579	116	261	697 (86)	7,318 (97)
<i>Gram Panchayats</i>	51,674	2,50,349	26,519	16,029	25,155 (49)	2,34,320 (94)

(Source: The Chief Audit Officer, Co-operative Societies and *Panchayats*, Lucknow).

As majority of PRIs (unit year) remained unaudited during 2010-13, the financial data of these PRIs was not authenticated.

On this being pointed out, Chief Audit Officer Co-operative Societies and *Panchayats* stated (August, 2013) that non-production of records by the ZPs, KPs and GPs was the main reason for large arrears.

Rule 186 of the Uttar Pradesh Panchayat Raj Rules, 1947, as amended vide notification no. 854/33-1-2011-126/96 dated 30 March 2011, provides for preparation of annual reports on the audit of the accounts of GPs. Consolidated audit report up to 2009-10 was not being prepared by Chief Audit Officer, Co-operative Societies and *Panchayats*. Preparation of report for 2010-11 is under process.

3.14 Overall Financial Position

Thirteenth Finance Commission recommended (Para 10.161) that the State Government would be eligible to draw down its performance grant for succeeding fiscal year on production of a certificate that accounting system as recommended has been introduced in all the Rural and Urban Local Bodies.

The CAG of India had prescribed eight accounting formats through PRIASoft accounting software for PRIs in the State. MoPR advised (October, 2009) the State Government to introduce Model Accounting System developed by NIC for PRIs on web based software (PRIASoft) with effect from 1 April, 2010. The State Government made it mandatory (January, 2011) to maintain the account on PRIASoft with effect from 1 April, 2010. Out of eight formats, reports in only three formats (Annual Receipt and Payment Account, Consolidated Abstract Register and Monthly Reconciliation Statement) were being generated by ZPs and KPs. Reports I and II were being generated in GPs.

On this being pointed out Director, *Panchayati Raj* stated that the reports in the remaining formats would be generated in the year 2013-14.

Status of adoption of accounts format up to 2012-2013 is given in **Table 11**.

Table 11: Status of maintenance accounts on PRIASoft

Name of PRIs	No. of PRIs	No. of PRIs Maintaining Account on PRIASoft
<i>Zila Panchayat</i>	72	64
<i>Kshetra Panchayat</i>	821	713
<i>Gram Panchayat</i>	51,914	51,914

(Source: Director, *Panchayati Raj*)

During 2008-12, records of 6,131 PRIs were test checked in audit. The year-wise financial position of PRIs during 2008-12 is given in **Table 12**.

Table 12: Financial position of PRIs during 2008-12

(₹ in crore)

Year	Number of PRIs checked	Opening balances	Funds received	Total funds available	Expenditure (per cent)	Closing balances
<i>Zila Panchayats</i>						
2008-09	55	439.04	993.15	1,432.19	1,022.87 (71)	409.32
2009-10	55	381.80	682.90	1,064.70	646.94 (61)	417.76
2010-11	11	100.57	145.29	245.86	139.07 (57)	106.79
2011-12	29	192.37	330.72	523.09	294.87(56)	228.22
<i>Kshetra Panchayats</i>						
2008-09	300	156.36	532.09	688.45	503.09(73)	185.36
2009-10	147	86.13	248.56	334.69	246.26 (74)	88.43
2010-11	42 ⁵	33.21	102.17	135.38	87.36 (65)	48.02
2011-12	59	35.71	69.36	105.07	64.16(61)	40.91

⁵ Financial position of 12 out of 54 KPs was not available, hence not included in the table.

Gram Panchayats						
2008-09	3,003	71.85	363.89	435.74	307.84(71)	127.90
2009-10	1,891	78.85	252.95	331.80	220.41 (66)	111.39
2010-11	333 ⁶	26.32	83.71	110.03	76.31 (69)	33.72
2011-12	186 ⁷	10.45	22.69	33.14	24.01(72)	9.13

(Source: Register of Audit Inspection Reports)

Substantial funds received by PRIs remained unutilised in each financial year during the 2008-12. Decreasing trend of utilisation of funds was noticed in ZPs and KPs.

3.15 Monitoring Mechanism and Vigilance Provisions

3.15.1. Monitoring Mechanism:

Internal control is a system within an organisation that governs its activities to effectively achieve its objectives; it helps to provide reasonable assurance of adherence to Laws, Rules, Regulations and Orders, safeguards against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The control and monitoring activities include proper maintenance of accounts, reconciliation of figures, documentation, system of authorisation and approval of payments, segregation of duties, inspection and audit.

The MoPR in consultation with the CAG of India had prescribed the accounting formats with coding pattern for each tier of PRIs to strengthen their accounting system and enable the authorities to monitor the progress of receipts and expenditure under different objectives to take further action as required. Object Head wise accounts were not prepared by the PRIs. Monthly closing balances of cash books were not reconciled with the balance shown in the bank pass books by the GPs.

3.15.2 Vigilance provisions

Prevention of Corruption Act 1988, GoUP's Civil Servants Conduct Rules 1956, *Lok Ayukta* Act, strategic framework to combat corruption (2001) and paragraph 206 of UP Eleventh Plan document provide the framework for preventive Vigilance and anti-corruption strategy. The Institutional mechanism to fulfill the mandate includes *Lok Ayukta*, Vigilance set up under Director General level police officer with administrative control of Secretary Vigilance department, Economic Offences Wing, Anti-Corruption Branch in Police Department and Special Task Force for Serious Economic Offences under Secretary, Home Department.

The Vigilance Mechanism adopted by GoUP in the light of Prevention of Corruption Act, 1988 was inadequate as discussed below:-

- a. *Gram Pradhan* is out of purview of *Lok Ayukta* Act unlike chairpersons of ULBs, KPs and ZPs.
- b. *Lok Ayukta's* recommendations are not binding on GoUP.

⁶ Financial position of seven out of 340 GPs was not available, hence not included in the table.

⁷ Financial position of one out of 187 GPs was not available, hence not included in the table.

3.16 Conclusion

The budgeting and budgetary process was not followed. All PRIs were still not maintaining the accounting records in the prescribed formats. Consequently, accounts presenting a true and fair view of income and expenditure of PRIs were not available. The available financial data was unreliable as the majority of ZPs (64 *per cent*) KPs (97 *per cent*) and GPs (94 *per cent*) units remained unaudited at the end of the year 2012-13. The State Government did not release the full amount of devolved funds to PRIs. Due to lack of monitoring at the State Government level, compliance to observations reported in the inspection reports was poor.