

CHAPTER-I

PANCHAYATS, RURAL HOUSING AND RURAL DEVELOPMENT DEPARTMENT

AN OVERVIEW OF FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

CHAPTER – I

AN OVERVIEW OF FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

The 73rd Constitutional amendment gave constitutional status to Panchayati Raj Institutions (PRIs) and established a system of uniform structure, 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 local self governance institutions (LSGIs). 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.

A three-tier¹ system of Panchayats was envisaged in the Gujarat Panchayat (GP) Act, 1961. This Act was amended in April 1993 to incorporate the provisions of the 73rd Constitutional Amendment Act, 1992.

1.2 State Profile

The population growth in Gujarat during the decade (2001-2011) was 19.17 *per cent* and was more than the national average of 17.64 *per cent*. As per the 2011 census, the population of the State was 6.04 crore, of which women comprised 47.86 *per cent*. The rural population of the State was 3.47 crore (57.45 *per cent*) and urban population was 2.57 crore (42.55 *per cent*). The comparative demographic and developmental picture of the State is given in **Table 1** below:

Table 1 : Important statistics of the State

Indicator	Unit	State value	National value
Population	1,000s	60,384	12,10,193
Population density	Sq.Km	308	382
Rural Population	1,000s	34,671	8,33,088
Urban Population	1,000s	25,713	3,77,106
Gender Ratio	Females per 1,000 males	918	940
Population below poverty line	<i>per cent</i>	16.80	27.50
Literacy	<i>per cent</i>	79.31	74.04
Birth rate	<i>per 1,000 Population</i>	21.30	21.80
Infant Mortality Rate	<i>per 1,000 live births</i>	41	44
Maternal Mortality Rate	<i>per 1,00,000 live births</i>	148	178
Gross State Domestic Product ²	₹ in crore	6,11,767	83,53,495
Panchayati Raj Institutions (PRIs)	Numbers	14,132	2,44,372
District Panchayats (DPs)	Numbers	26	594
Taluka Panchayats (TPs)	Numbers	223	6,326
Gram Panchayats (GPs)	Numbers	13,883	2,37,452

(Source: Socio-Economic Review 2012-13 of Gujarat and data available on the website of Ministry of Panchayati Raj, Government of India)

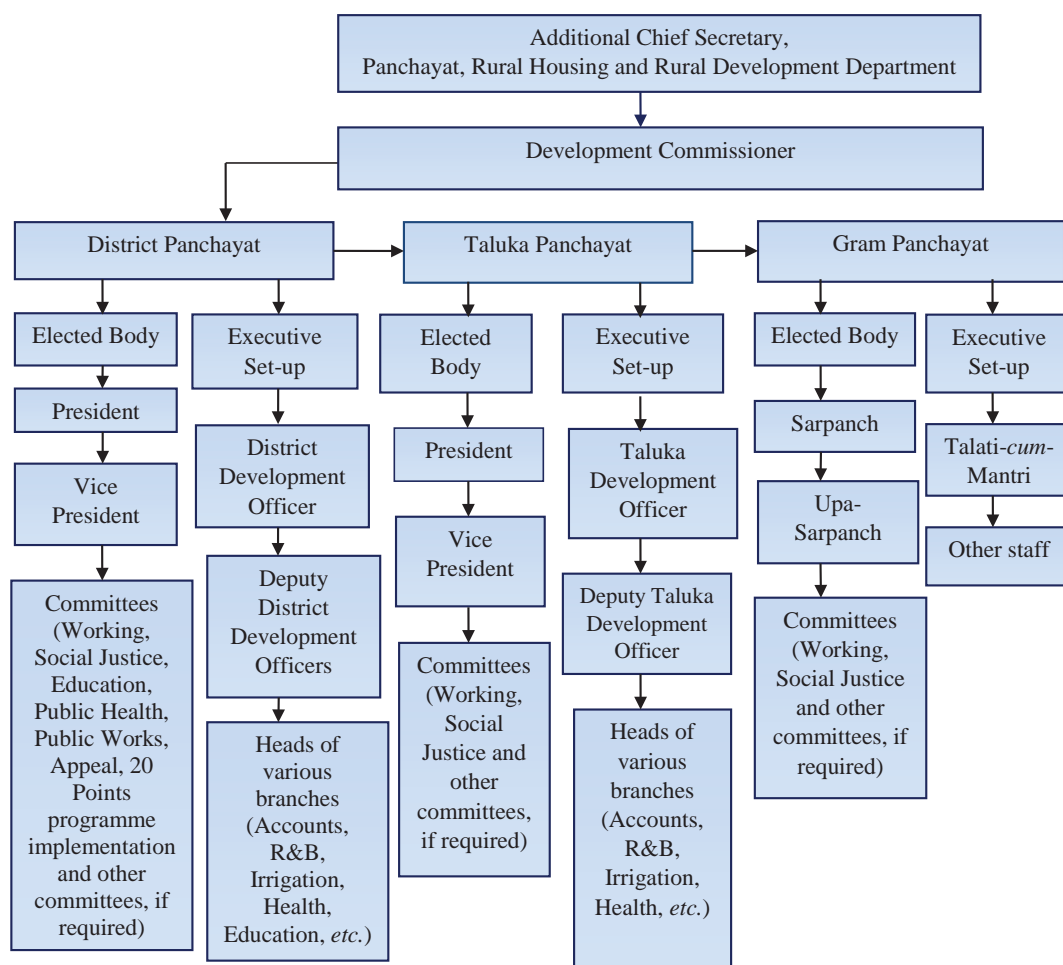
¹ District Panchayat (DP) at District level, Taluka Panchayat (TP) at intermediate level and Gram Panchayat (GP) at village level.

² At current prices

1.3 Organisational set up of the PRIs

Additional Chief Secretary, Panchayat, Rural Housing and Rural Development Department (PRHRDD) exercises administrative control over the PRIs. The PRHRDD is responsible for framing policies pertaining to formulation and implementation of developmental schemes and administration. The PRHRDD exercises administrative control through office of the Development Commissioner, Gandhinagar. The President and Vice President of the DPs and TPs are elected from the elected representatives. The Sarpanch of a GP is elected by the villages and the Upa-Sarpanch is elected from amongst the elected representatives. The GP Act envisages the functioning of the DPs, TPs and GPs through Standing Committees having elected representatives as members and chairperson. The number of Committees prescribed under the GP Act is seven, two, and two for DPs, TPs and GPs respectively. In addition, the Panchayats may, with the prior approval of the State Government, constitute Committee(s) for specific purposes. The President in respect of DPs and TPs and Sarpanch of GPs is the ex-officio Chairperson of the Standing Committees.

The organisational set up of the three tier system in Gujarat is shown below:



1.4 Powers and functions

The 73rd Amendment to the Constitution envisaged transfer of 29 functions listed in the 11th Schedule of the Constitution to the PRIs. Article 243 G of the Constitution had empowered the State Legislature to decide and confer powers and responsibilities to the PRIs. As per Section 180 (2) of the GP Act, the State Government may entrust 29 functions to the PRIs to prepare and implement schemes relating thereto for economic development and social justice. State Government has devolved (April 1993) 14 functions fully and 5 functions partially to PRIs. Ten functions have not yet been devolved (February 2014) to the PRIs (**Appendix-I**). Thus, the spirit of the Constitutional Amendment for the PRIs to function as grassroots LSGIs has not been fulfilled in substantial measure.

1.5 District Planning Committees

Article 243 ZD of the Constitution of India envisages that a District Planning Committee (DPC) shall be constituted at the district level in every State. DPC consists of such number of elected, nominated and permanent invitee members (not less than 15 and not more than 30) as determined by the Collector of the District. The Minister in-charge of the District is the Chairperson of the DPC. The tenure of DPC is five years and it is required to meet at least once in three months.

DPCs are constitutionally responsible to consolidate the plans prepared by LSGIs in the District and to prepare a Draft Development Plan (DDP) for the District as a whole for onward transmission to the Government. The DPC is to monitor the quantitative and qualitative progress, especially its physical and financial achievements in the implementation of the approved DDP. The State Government, while preparing the State plan, considers the proposal and priority included in the DDPs prepared for each District by the DPC.

The State Government had constituted (between January 2007 to November 2013) DPCs in 23 Districts and in the three remaining Districts (Anand, Porbandar and Rajkot), DPCs are yet to be constituted³ (March 2014). Out of the 23 Districts in which DPCs were constituted, meetings of DPC were held in only six Districts⁴. Further, the DDPs had not been prepared in any of the 22 Districts (which had provided⁵ information to Audit), which could have factored the aspirations and felt needs of the rural populace.

1.6 Financial Position of PRIs

1.6.1 Funds flow chart of PRIs

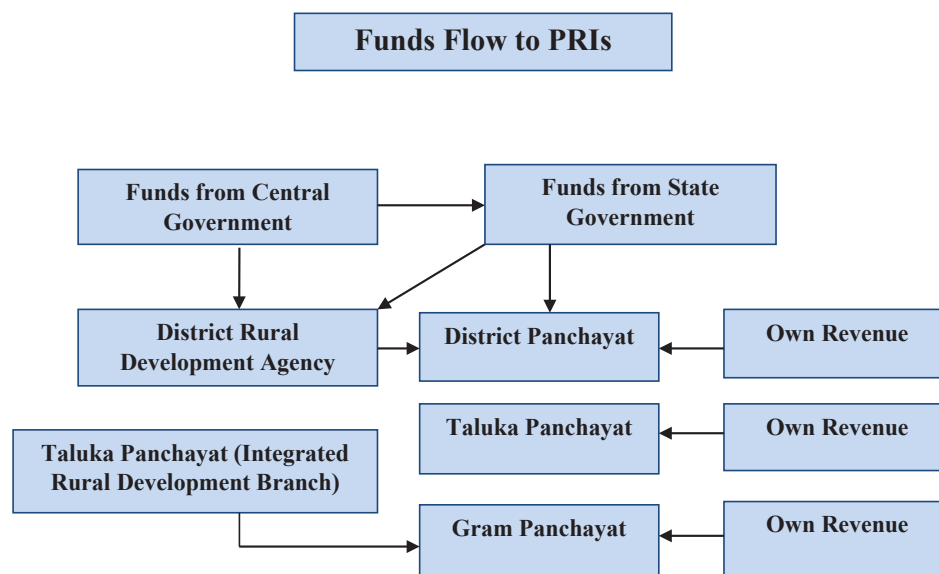
The funds of DPs and TPs are deposited in the District Treasury in Deposit Accounts, which are operated as non-interest bearing banking account. Centrally Sponsored Scheme (CSS) funds are kept in the banks/post offices in savings accounts according to guidelines of the respective schemes. The funds of GPs are kept in savings accounts at the nearest Post Office or a Scheduled Bank.

³ In absence of DPC, plan is approved by the District Development Officer and later ratified by DPC after reconstitution

⁴ Amreli, Dang, Narmada, Panchamahals, Sabarkantha and Valsad

⁵ Except Banaskantha, Bharuch, Mehsana and Navsari

The funds flow-chart of PRIs is as below -



1.6.2 Financial position of PRIs

In addition to own source of tax and non tax revenue *e.g.* fair tax⁶, building tax, fee, rent from buildings, water reservoirs, *etc.* and capital receipts from sale of land, PRIs receive funds from State Government and Government of India (GoI) in the form of grants-in-aid/loans for general administration, implementation of development schemes/works, creation of infrastructure in rural areas, *etc.* Besides, grants from State/Central Finance Commission are also received.

1.6.3 Sources of Revenue

The receipt of PRIs from all sources during the last three years ending 2012-13 is shown in the **Table 2** below –

Table 2: Sources of revenue of PRIs

(₹ in crore)			
Revenue	2010-11	2011-12	2012-13
Government Grants	11,419.64	13,087.87	14,464.38
Own Revenue	133.88	266.61	268.66
Thirteenth Finance Commission Grants	230.43	299.02	322.53
Total	11,783.95	13,653.50	15,055.57

(Source: Budget publications and information furnished by the PRHRDD)

The above table shows that there was complete dependence of the PRIs on the Government for even carrying out their basic functions as their 'own revenue' was very low.

⁶ Tax on melas held in the jurisdiction of PRIs

1.6.4 Sectoral Receipts and Expenditure

The sectoral allocation of receipts and expenditure of PRIs during 2010-11 to 2012-13 is given in **Table 3** below -

Table 3: Sectoral receipts and expenditure of PRIs

(₹ in crore)

Description		General Services	Social Services	Economic Services	Total
2010-11	Budget provision	904.80	7,535.03	3,344.12	11,783.95
	Expenditure	1,073.67	7,521.04	3,353.18	11,947.89
2011-12	Budget provision	1,162.29	7,671.39	2,201.24	11,034.92
	Expenditure	921.51	7,523.21	2,510.92	10,955.64
2012-13	Budget provision	989.55	9,953.00	2,296.70	13,239.25
	Expenditure	1,420.93	9,643.13	2,708.40	13,772.46

(Source : VLC data and Budget publications)

The above table shows that percentage of expenditure to total expenditure increased from nine *per cent* to 10 *per cent* under general services and from 63 *per cent* to 70 *per cent* under social services whereas it decreased from 28 *per cent* to 20 *per cent* under economic services during the period 2010-13. The increase in proportion of social service expenditure indicates an increased investment made in education, which points towards a positive development in the society.

1.7 State Finance Commission

Article 243 I of the Constitution made it mandatory for the State Government to constitute a State Finance Commission (SFC) within one year from the enactment of 73rd Constitutional Amendment and thereafter on expiry of every five years to review the financial condition of the PRIs and to make recommendations to the Governor for devolution of funds on the following aspects -

- the distribution of net proceeds of taxes, duties and fees between the State and the PRIs;
- taxes, duties, fees and tolls to be assigned and appropriated by PRIs;
- release of grants-in-aid to the PRIs from Consolidated Fund of the State; and
- measures needed to improve the financial condition of the PRIs.

1.7.1 Delayed/Non Constitution of State Finance Commission

As the Constitutional Amendment Act, 1992 came into effect on 20 April 1993, the constitution of the first SFC was due by 19 April 1994. Status of constitution of Finance Commissions by the State Government is given in **Table 4** as follows –

Table 4: Constitution of State Finance Commission

Finance Commission	Due Date for Constitution SFC	Actual Date of Constitution	Delay in constitution	Month of submission of reports by SFC	Date of placement in Assembly
1 st FC	19 April 1994	15 September 1994	05 Months	October 1997	28 August 2001
2 nd FC	19 April 1999	19 November 2003	55 Months	November 2006	30 March 2011
3 rd FC	19 April 2004	02 February 2011	81 Months	Not Submitted	NA
4 th FC	19 April 2009	Not constituted	--	NA	NA
5 th FC	19 April 2014	Not constituted	--	NA	NA

(Source: Information received from PRHRDD)

The above table shows that the mandatory Constitutional provisions in respect of timely constitution of the SFCs were not adhered to by the State Government and though the 3rd SFC was constituted in February 2011, the committee has not submitted its report till date (March 2014). Delayed/non-constitution resulted in non-availability of guiding principles for distributing State's financial resources among PRIs/ULBs, determination of taxes, duties, tolls and fees which are to be assigned to or appropriated by, the Panchayats or the Municipalities.

1.8 Twelfth Finance Commission Grants

On the recommendation of Twelfth Finance Commission (TwFC), GoI released ₹ 931.00 crore to the State Government during the period 2005-10. State Government released the funds to the PRIs during the same period. Of this amount, PRIs spent ₹ 264.52 crore on Water Supply and Sanitation, ₹ 264.52 crore on Solid Waste Management, ₹ 42.80 crore on Data base on finances and ₹ 352.71 crore on Other Works leaving an unspent balance of ₹ 6.45 crore (GoI share) as on March 2010. The State Government granted permission (June 2011) to PRIs to spend this unspent balance for the works recommended by TwFC.

However, it was observed that out of the unspent balance of ₹ 6.45 crore, the PRIs spent ₹ 1.48 crore on Water Supply, ₹ 1.05 crore on Sanitation and Drainage and ₹ 2.00 crore on other works. An unspent balance of ₹ 1.92 crore was still lying with them as on January 2014.

1.9 Thirteenth Finance Commission

The Thirteenth Finance Commission (ThFC) grants are divided into two components – General Basic Grant (GBG) and General Performance Grant (GPG). The GBG can be accessed by all States as per criteria laid down by the Commission. But GPG can be accessed only by those States which comply with conditions stipulated, otherwise the GPG would be forfeited. The forfeited grant would be distributed as follows -

- 50 per cent of amount forfeited by the PRIs to be distributed among all States irrespective of their compliance with the condition; and

- remaining 50 per cent to be distributed among the States which have complied with the conditions.

The State Government for the period 2010-15 was eligible to get central grant of ₹ 2,455.69 crore for PRIs, of which ₹ 1,597.54 crore was earmarked for GBG and ₹ 858.15 crore for GPG. Accordingly, State Government received GBG of ₹ 230.43 crore⁷ for the year 2010-11, ₹ 285.50 crore⁸ for the year 2011-12 and ₹ 322.53 crore⁹ for the year 2012-13. Audit observed that as against ₹ 838.46 crore received (2010-13), expenditure of ₹ 680.08 crore¹⁰ only was incurred leaving unspent balance of ₹ 158.38 crore.

Audit further observed that GPG of ₹ 93.38 crore¹¹ (2011-12) and ₹ 216.48 crore¹² (2012-13) allocated by GoI for the State was forfeited due to non-compliance of conditions stipulated by the ThFC. In accordance with the orders of the ThFC, the State Government received only ₹ 13.52 crore as GPG for the year 2011-12 from the forfeited grant. This resulted in loss of central assistance of ₹ 296.34 crore to the State Government.

1.10 Formats of Accounts

State Government decided (September 2004) to accept the Model Accounting System (MAS) prescribed by the Comptroller and Auditor General of India (CAG) which provides for four tier classification of accounts viz. major head, minor head, sub head and object head. Further, instructions were issued (March 2011) by the State Government for maintaining accounts as per double entry accrual accounting system in Gujarat Rural Accounting Management (GRAM) software along with eight formats prescribed in MAS in addition to the requirement of respective Financial Rules of PRIs. However, the formats have not been operationalised and PRIs continued with their existing accounting formats prescribed under the Gujarat Taluka and District Panchayats Financial Accounts and Budget Rules, 1963.

Further, audit observed that web based software (PRIASoft) developed by the GoI for maintenance of accounts of PRIs had not been adopted by the State Government.

DPs stated (January 2013) that GRAM software had facilities for keeping accounts in double entry accounting system. This was not correct as the format prescribed by CAG was not found in the GRAM software adopted by the PRIs. Further, the annual accounts maintained by the PRIs were on cash basis instead of double entry accrual based accounting system. The State Government stated (May 2013) that the proposal for adoption of PRIASoft is under consideration.

7 ₹ 217.24 crore (GBG) + ₹ 13.19 crore Special area basic grant

8 ₹ 272.31 crore (GBG) + ₹ 13.19 crore Special area basic grant

9 ₹ 309.34 crore (GBG) + ₹ 13.19 crore Special area basic grant

10 ₹ 228.70 crore (2010-11) + ₹ 274.10 crore (2011-12) + ₹ 177.28 crore (2012-13)

11 ₹ 86.14 crore (GPG) + ₹ 7.24 crore Special area performance grant

12 ₹ 202.06 crore (GPG) + ₹ 14.42 crore Special area performance grant

1.11 Audit arrangement and coverage

Examiner Local Fund Audit (ELFA) is the primary auditor of the accounts of local bodies under the provisions of the Gujarat Local Fund Audit (GLFA) Act, 1963. Apart from local bodies, other local bodies such as Universities and other funds/local bodies are also audited by ELFA. The ELFA Department under State Finance Department is headed by Examiner and has District offices in all the Districts headed by Assistant Examiners.

State Government by a resolution (May 2005) entrusted the Technical Guidance and Supervision (TGS) over the audit of PRIs to Comptroller and Auditor General of India (CAG) under Section 20(1) of CAG's (DPC) Act¹³, 1971. The provision of laying of Audit Report of ELFA alongwith the Report of CAG before the State Legislature was made by amending (May 2011) the Gujarat Panchayats Act, 1993. Accounts of one TP and eight GPs for 2007-08, two DPs, two TPs and 16 GPs for 2008-09, seven DPs, 30 TPs and 232 GPs for 2009-10 and one TP and eight GPs for 2010-11 respectively were audited during 2012-13 under Section 20(1) of CAG's (DPC) Act, 1971.

1.11.1 Status of audit of PRIs by Examiner Local Fund Audit

The status of audit conducted by ELFA upto December 2013 is as shown in **Table 5** below -

Table 5 : Status of audit by ELFA

PRIs	Number of Auditable entities	Entities audited and period of accounts covered	Entities yet to be audited and period of accounts to be covered
DPs	26	26 (upto 2010-11)	26 (2011-12 and 2012-13)
TPs	223	223 (upto 2010-11) 50 (upto 2011-12)	173 (2011-12) and 223 (2012-13)
GPs	13,733 ¹⁴	5,638 (upto 2010-11)	8,095 (2010-11) and 13,733 (2011-12 and 2012-13)

(Source: Information furnished by ELFA)

The above table shows that audit of GPs by ELFA was in arrears from 2010-11 onwards and for DPs and TPs, the arrears were from 2011-12 onwards.

The audit report of PRIs by ELFA for 2009-10 was placed (October 2013) before Legislature and report for the year 2010-11 was under preparation (February 2014).

13 Save as otherwise provided in section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority: Provided that no such request shall be made except after consultation with the CAG.

14 As per table 1 under paragraph 1.2 of the Report, the numbers of GPs are 13,883 whereas the GPs audited was only 13,733. The reason for the difference was non-updation of ELFA records

1.11.2 Compliance to Inspection Reports

1.11.2.1 Inspection Reports of Examiner Local Fund Audit

Gujarat Local Fund Audit (GLFA) Act 1963, provides that ELFA should conduct audit of PRIs and after the completion of the audit, not later than three months thereafter, prepare a report on the accounts audited and examined and shall send such report to the local authority concerned and copies thereof to such officers and bodies as the State Government may direct. The Examiner shall include in this report a statement of (i) every payment which appears to him to be contrary to law; (ii) the amount of any deficiency or loss which appears to have been caused by the gross negligence or misconduct of any person; (iii) the amount of any sum received which ought to have been but is not brought into account by any person; and (iv) any other material impropriety or irregularity which he may observe in the accounts. The local authority shall within four months of receipt of the report, send to the Examiner intimation of his having remedied the defects or irregularities if any pointed out in the report. The Act empowers the Examiner to recommend and give opinion to the Commissioner to surcharge or charge the person responsible for such defects or irregularities.

Information provided by ELFA showed that as on December 2013, 18,71,754 paragraphs of the report issued to the PRIs by ELFA were pending for compliance. Age-wise pendency of paragraphs is given in **Table 6** below -

Table 6: Pendency of paragraphs of ELFA

PRIs	Outstanding paragraphs pertaining to the period up to 2002-03	Outstanding paragraphs pertaining to the period 2003-07	Outstanding paragraphs pertaining to the period 2007-12	Total outstanding paragraphs
DPs	27,662	8,426	8,192	44,280
TPs	79,369	28,758	28,125	1,36,252
GPs	9,30,572	2,63,261	4,97,389	16,91,222
Total	10,37,603	3,00,445	5,33,706	18,71,754

(Source: Information furnished by ELFA)

The above table shows that out of 18,71,754 outstanding paragraphs, 10,37,603 (55 per cent) paragraphs were outstanding for more than ten years due to non-compliance by PRIs. This indicated lack of prompt response on the part of officials of PRIs. The ELFA further reported that no cases of defects or irregularities liable for surcharge or charge had been reported to the Commissioner till date (March 2014).

1.11.2.2 Outstanding paragraphs of IRs of Accountant General

24,015 paragraphs of 5,426 IRs up to the year 2013-14 were outstanding for want of compliance from PRIs as on March 2014. The status of financial year-wise outstanding paragraphs is shown in **Table 7** as follows-

Table 7 : Position of pendency of paragraphs of AG

	Up to 2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
IRs	2,565	414	682	778	529	307	151	5,426
Paras	9,952	1,512	2,448	3,390	3,491	2,230	992	24,015
Money value (₹ in crore)	37.47	1.92	2.44	0.39	9.68	6.46	1.19	59.55

Increasing trend of outstanding paragraphs (except 2013-14) indicated lack of efforts by concerned authorities in furnishing compliance to these paragraphs.

1.12 Response of departments to the audit paragraphs

Four¹⁵ draft performance audit reviews, one¹⁶ compliance paragraph and an individual paragraph¹⁷ on Audit of transactions were forwarded to the Principal Secretaries of the concerned administrative departments between June 2013 and October 2013 with a request to send their responses within six weeks. The replies to all four draft performance audit reports and individual paragraph featured in this Report were received. Entry and exit conferences were also held with the concerned departments on the audit findings and the replies/views expressed have been duly considered while finalising this report.

1.13 Conclusion

A review of finances of PRIs revealed that the spirit of the Constitutional Amendment for the PRIs to function as LSGIs was not fulfilled substantially as the State Government had not yet devolved 10 functions out of 29 functions to the PRIs as envisaged in the 11th Schedule of the Constitution. The DPCs were constituted in 23 Districts only. Out of the 23 Districts in which DPCs were constituted, meetings of DPC were held in only six Districts. Prescribed periodicity for constitution of SFCs was not maintained and though the 3rd SFC was constituted in February 2011, the committee has not submitted its report till date (March 2014). An amount of ₹ 1.92 crore of TwFC and ₹ 158.38 crore of ThFC is lying unspent. Formats of Model Accounting System (MAS) prescribed by CAG were not adopted. The huge number of audit paragraphs of the CAG and ELFA indicated weak internal control systems in PRIs. Efforts must be taken to clear these old outstanding audit observations.

15 Implementation of Indira Awaas Yojana, Total Sanitation Campaign, Management of Municipal Solid Wastes in Nagarpalikas and Implementation of Water Supply Schemes under Urban Infrastructure Development Scheme for Small and Medium Towns

16 Infrastructure and Human Resources Management in Elementary Schools run by PRIs

17 Excess expenditure and loss to Government of ₹ 70.35 lakh on procurement of cement