

## CHAPTER 1

### An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of *Panchayati Raj* Institutions

#### An Overview of the Functioning of *Panchayati Raj* Institutions in the State

##### 1.1 Introduction

Government of India (GoI) enacted the 73<sup>rd</sup> Constitutional Amendment Act in 1992 (Act) which envisaged decentralisation of powers to the rural self-governing bodies, viz., *Gram Panchayat* (GP) at the village level, *Kshetra Panchayat* (KP) at the block level (Intermediate level) and *Zila Panchayat* (ZP) at the district level. 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-governance. Consequently, the UP *Panchayat Raj* Act (UP PR Act), 1947 and Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam* (UP KP & ZP Act), 1961 were amended in 1994 and Rules framed thereunder.

Rule 186 of Uttar Pradesh *Panchayat Raj* (17<sup>th</sup> amendment) Act, 2011 laid down the provisions for tabling the Annual Report of Chief Audit Officer (CAO), Cooperative Societies and *Panchayats* and Annual Technical Inspection Report (ATIR) of the Comptroller and Auditor General of India (CAG) before the State Legislature. In pursuance to this, the State Government constituted *Panchayati Raj Samiti* in March 2014 to discuss both the reports in the Legislature of Uttar Pradesh.

##### 1.1.1 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, total population of the State is 19.98 crore, of which 77.72 *per cent* resides in rural areas. In comparison to the national value of 2.41 lakh number of GPs, 24.48 *per cent* (0.59 lakh) of GPs exists in the State of Uttar Pradesh. 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
Population	Crore	19.98	121.07
Population density	Per square km.	829	382
Rural population	<i>Per cent</i>	77.72	68.84
Number of PRIs	Number	60,058	2,47,577
Number of ZPs	Number	75	598
Number of KPs	Number	821	6,391
Number of GPs	Number	59,162*	2,40,588
Gender ratio	Females per 1000 males	912	940
Literacy	<i>Per cent</i>	67.68	74.04

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

\* Increased due to de-limitation of constituencies

## 1.2 Organisational set up of *Panchayati Raj* Institutions

Social sector programmes/schemes are implemented by PRIs, parallel bodies and line departments. At Government level, Principal Secretary, *Panchayati Raj* assisted by Director, *Panchayati Raj* was responsible for release, utilisation and overall monitoring of grants. *Apar Mukhya Adhikari* (AMA) at *Zila Panchayat* (ZP) level, Block Development Officers at *Kshetra Panchayat* (KP) level and *Gram Panchayat/Vikas Adhikari* at *Gram Panchayat* (GP) level were responsible for economical and effective utilisation of grant. Further, *Zila Panchayat* Monitoring Cell (ZPMC) Lucknow and District *Panchayat Raj* Officers (DPROs) were responsible for monitoring the progress of the expenditure incurred on works executed by ZPs and KPs/GPs respectively. Apart from the above, High Level Monitoring Committee (HLMC) headed by Chief Secretary, GoUP was also responsible for ensuring adherence to the specific conditions of grants provided to PRIs. The Organogram of PRIs at the Government and Elected representative of each level, parallel bodies and line departments with the administrative setup in Blocks, Districts and State level is given in **Appendix 1.1**.

## 1.3 Functioning of *Panchayati Raj* Institutions

### 1.3.1 Status of devolution of Funds, Functions and Functionaries to *Panchayati Raj* Institutions

Eleventh schedule of the Constitution of India provided for the transfer of Funds, Functions and Functionaries to *Panchayati Raj* Institutions (PRIs) for enabling them to function as institutions of self-governance. Accordingly, the UP State Legislature amended the UP PR Act, 1947 and UP KP & ZP Act, 1961 by UP Act no. 9 of 1994 and devolved powers and functions to GPs as specified in Section 15 of the UP PR Act, 1947 and to KPs and ZPs as specified in Schedule I and Schedule II to UP KP & ZP Act, 1961. Out of 29 (**Appendix 1.2**), only 16 functions mentioned in the Eleventh Schedule of the Constitution have been devolved to PRIs as of 31 October 2015 (**Appendix 1.3**). The remaining functions were yet to be devolved to the PRIs.

## 1.4 Formation of various committees

### 1.4.1 Standing Committees

For proper functioning of the three tiers of *Panchayats*, GoUP ordered in July 1999 for constitution of six standing committees in each tier of *Panchayats*. Brief introduction on the working of PRIs and various standing committees involved in financial matters and implementation of schemes is given in **Table 2**.

**Table 2: Details of Standing Committees**

Tier of PRIs	Head of the Standing Committees	Names of the Standing Committees	Roles and Responsibilities of the Standing Committees
Zila Panchayat	Apar Mukhya Adhikari/Adhyaksh, Zila Panchayat	(i) Niyojan Avam Vikas Samiti (ii) Shiksha Samiti (iii) Nirman Karya Samiti (iv) Swasthya Avam Kalyan Samiti (v) Prashasanik Samiti (vi) Jal Prabandhan Samiti	As per UP Government notification no. 4430/33-1-99/SPR/99- dated 29 July 1999 and 4077 (1) 33-2-99-48 G/99 dated 29 July 1999 functions are enumerated in <b>Appendix 1.4</b> .
Kshetra Panchayat	Block Development Officer/ Pramukh, Kshetra Panchayat	(i) Niyojan Avam Vikas Samiti (ii) Shiksha Samiti (iii) Nirman Karya Samiti (iv) Swasthya Avam Kalyan Samiti (v) Prashasanik Samiti (vi) Jal Prabandhan Samiti	As per UP Government notification no. 4430/33-1-99/SPR/99- dated 29 July 1999 functions are enumerated in <b>Appendix 1.4</b>
Gram Panchayat	Gram Panchayat Adhikari/Gram Vikas Adhikari/ Pradhan, Gram Panchayat	(i) Niyojan Avam Vikas Samiti (ii) Shiksha Samiti (iii) Nirman Karya Samiti (iv) Swasthya Avam Kalyan Samiti (v) Prashasanik Samiti (vi) Jal Prabandhan Samiti	-----as above----

(Source: Director, *Panchayati Raj*, Lucknow)

On being pointed out, the Director, *Panchayati Raj* stated (November 2015) that meetings of committees constituted in ZPs, KPs and GPs were being held and minutes were being maintained at their level. Thus, the status of constitution and functioning of these committees were not available at Directorate level.

#### 1.4.2 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". Although the Government enacted the Uttar Pradesh District Planning Committee Act, 1999 (July 1999), DPCs in the State were constituted only in April 2008.

We, during Performance Audit of "Utilisation of Thirteenth Finance Commission Grants in PRIs" in test-checked 12 districts<sup>1</sup> noticed that district

<sup>1</sup> Aligarh, Bahraich, Etawah, Ferozabad, G.B. Nagar, Gazipur, Gonda, Lalitpur, Lucknow, Mau, Sitapur and Sultanpur.

plans for PRIs were neither compiled nor sent to DPCs for compilation by ZPs as required in the Act. Thus, objective of the State Government for decentralised governance and enhanced public participation was not being ensured and monitored by the department.

On this being pointed out, the Director, *Panchayati Raj* stated (November 2015) that the status of functioning of the District Planning Committees in the State was awaited from district level.

## 1.5 Audit arrangement

### 1.5.1 Primary auditor

Chief Audit Officer, Co-operative Societies and *Panchayats* (CAO) is the primary auditor for all the three tiers of PRIs. The details of audit of PRIs proposed, actually audited and in arrears by CAO are given in **Table 3**.

**Table 3: Position of units proposed, audited and those lying in arrear**

Name of PRIs	No. of units proposed	No. of units audited	No. of units in arrear (per cent)
<b>2012-13</b>			
ZPs	71	48	23 (32)
KPs	813	116	697 (86)
GPs	51,674	26,519	25,155 (49)
<b>2013-14</b>			
ZPs	73	45	28 (38)
KPs	820	89	731 (89)
GPs	51,674	33,378	16,296 (32)
<b>2014-15</b>			
ZPs	73	48	25 (34)
KPs	823	71	752 (91)
GPs	52,019	36,228	15,791 (30)

(Source: CAO, Co-operative Societies and *Panchayats*, Lucknow).

It would be seen from **Table 3** that a large number of PRIs (ZPs, KPs and GPs due for audit during the year) remained unaudited, ranging between 32 and 38 *per cent* in ZPs, 86 and 91 *per cent* in KPs and 30 and 49 *per cent* in GPs during 2012-15, as such the financial data of these PRIs was not scrutinised.

On this being pointed out, CAO stated (October 2015) that non-production of records by ZPs, KPs and GPs was the main reason for large arrears. Thus the State Government should take a serious note of this and put in place an effective system to ensure that PRIs maintain proper records and produce them for audit by primary auditors and also to the CAG audit teams.

Rule 186 of the UP PR Rules, 1947, as amended vide notification no. 854/33-1-2011-126/96 dated 30 March 2011, provides for preparation of annual audit reports of GPs. However, annual audit reports from 2011-12 were not prepared by CAO to place before the State legislature. The CAO stated (October 2015) that report for 2010-11 had been prepared and laid in UP

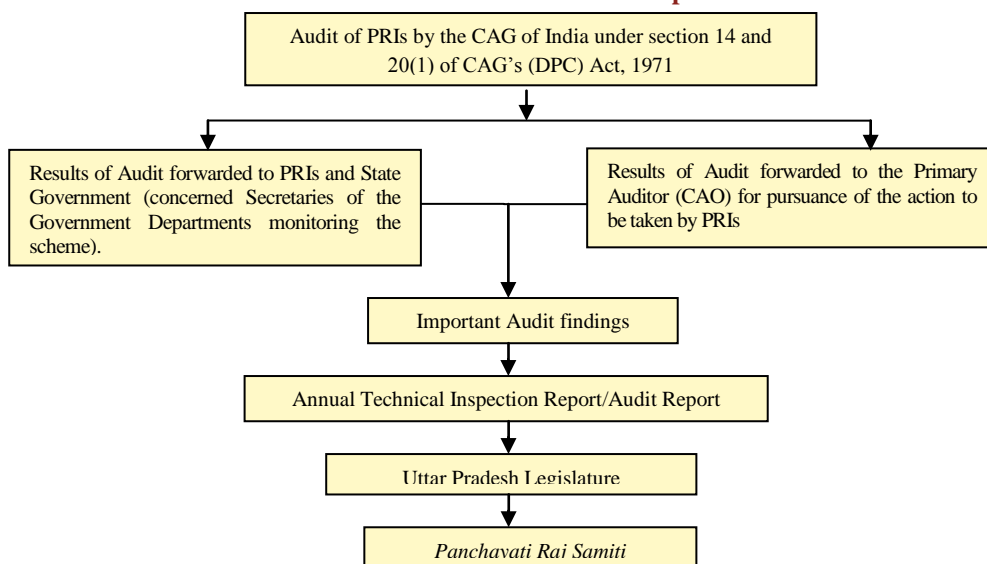
Legislature. The fact remains that annual audit reports for subsequent years were yet to be prepared and submitted to the legislature.

### 1.5.2 Audit by the Comptroller and Auditor General of India

The Eleventh Finance Commission recommended Technical Guidance and Support (TGS) for proper maintenance of accounts of PRIs and their audit by CAG. Para 10.121 and 10.122 of the recommendations of Thirteenth Finance Commission stipulate that CAG is to be entrusted with TGS for all Local Bodies of all States and also provides that ATIRs of the CAG as well as Annual Report of the Director of Local Fund Audit should be placed before the State Legislature which will provide a credible assurance of the audit of accounts. The audit mandate of CAG regarding audit of PRIs is as under:

- (i) The Audit of accounts of PRIs is conducted by the CAG of India under section 14 and 20(1) of CAG's (DPC) Act, 1971. TGS to the audit of PRIs to CAO is given by the CAG under Section 20 (1) of CAG's (DPC) Act, 1971.
- (ii) The result of audit/audit reports was sent to State Government, Director, PRI and CAO, for pursuance of action to be taken by PRIs.

**Chart 1: Procedure of audit in PRIs is depicted below:**



State Government constituted *Panchayati Raj Samiti* in March 2014 to discuss the reports of *Panchayati Raj* in the Uttar Pradesh Legislature. But, the ATIRs sent to the Government for the years ended March 2013 and March 2014 were not placed before the Legislature. Hence, they were not discussed in *Panchayati Raj Samiti*.

### 1.6 Response to Audit observations

The audit objections were communicated to the Heads of the Offices, Director, *Panchayati Raj* and CAO. Details of outstanding audit objections with value carried out during the course of Compliance audit to check whether the money was spent as per rules and procedures and purposes envisaged, are given in **Table 4**.

**Table 4: Details of outstanding audit objections as on 31 March 2015****(₹ in crore)**

Sl. No.	Year	Opening balance of para		Para added during the year		Para settled during the year		Outstanding para	
		No.	Value	No.	Value	No.	Value	No.	Value
1	2010-11	12,694	895.36	1,308	162.20	1	0.00	14,001	1,057.56
2	2011-12	14,001	1,057.56	2,033	242.37	-	-	16,034	1,299.93
3	2012-13	16,034	1,299.93	482	223.16	-	-	16,516	1,523.09
4	2013-14	16,516	1,523.09	3,310	1,073.44	-	-	19,826	2,596.53
5	2014-15	19,826	2,596.53	2,203	816.81	-	-	22,029	3,413.34

(Source: Register of Audit Inspection Reports)

It would be seen from **Table 4** that 22,029 paragraphs with money value of ₹ 3,413.34 crore were outstanding at the close of 2014-15. No replies were furnished for the audit paragraphs reported to the Government for 2011-15 which indicates that the Government was not responsive to audit observations.

CAO also did not pursue the action taken by the PRIs in compliance to the audit paragraphs regularly communicated to it.

On this being pointed out, CAO stated (October 2015) that review of the cases pending for settlement was not undertaken due to non-receipt of compliance report from the administrative departments. Non-receipt of compliance report for such a large number of objections and non-settlement of any observations during last five years indicates lack of internal control and monitoring and utter disregard of financial rules, regulations and norms of financial propriety.

## **Accountability Mechanism and Financial Reporting issues**

### **Accountability Mechanism**

#### **1.7 Social Audit**

The Government of India, in consultation with the Comptroller and Auditor General of India framed a set of rules and regulations titled the “Audit of Schemes Rules, 2011”. Subsequently Government of Uttar Pradesh constituted (August 2012) Social Audit Unit (SAU) as an independent agency. The details of functioning of SAU and result of Social Audit are discussed in relevant paragraphs of Chapter 2.2 Long Paragraph on “Audit of Schemes Rules, 2011”.

#### **1.8 Internal Control System of Panchayati Raj Institutions**

Internal control is a system within an organisation that governs its activities effectively to 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 internal control and monitoring activities include proper maintenance of accounts, reconciliation of figures, documentation, and system of authorisation and approval of payments, segregation of duties, inspection and audit.

### 1.8.1 Monitoring mechanism

Based upon the recommendations of Eleventh Finance Commission, 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, if required. However, accounts in the prescribed formats were not prepared by the test-checked PRIs. The budgetary process of receipts and flow of expenditure were also not analysed and monitored by the department.

## 1.9 Financial Reporting issues

### 1.9.1 Sources of Funds

The resource base of PRIs consists of own receipts, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and funds from Centrally Sponsored Schemes (CSS) for carrying out maintenance and development activities. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Table 5 (A) & 5 (B)**.

**Table 5 (A): 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	Own resources	<i>Zila Nidhi</i>	Nil	Nil	Own resources	<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	GoI	<i>Zila Nidhi</i>	GoI	<i>Kshetra Nidhi</i>	GoI	<i>Gram Nidhi</i>
Centrally Sponsored Schemes	GoI	CSS Bank account	GoI	CSS Bank account	GoI	CSS Bank account

(Source: Director, *Panchayati Raj*)

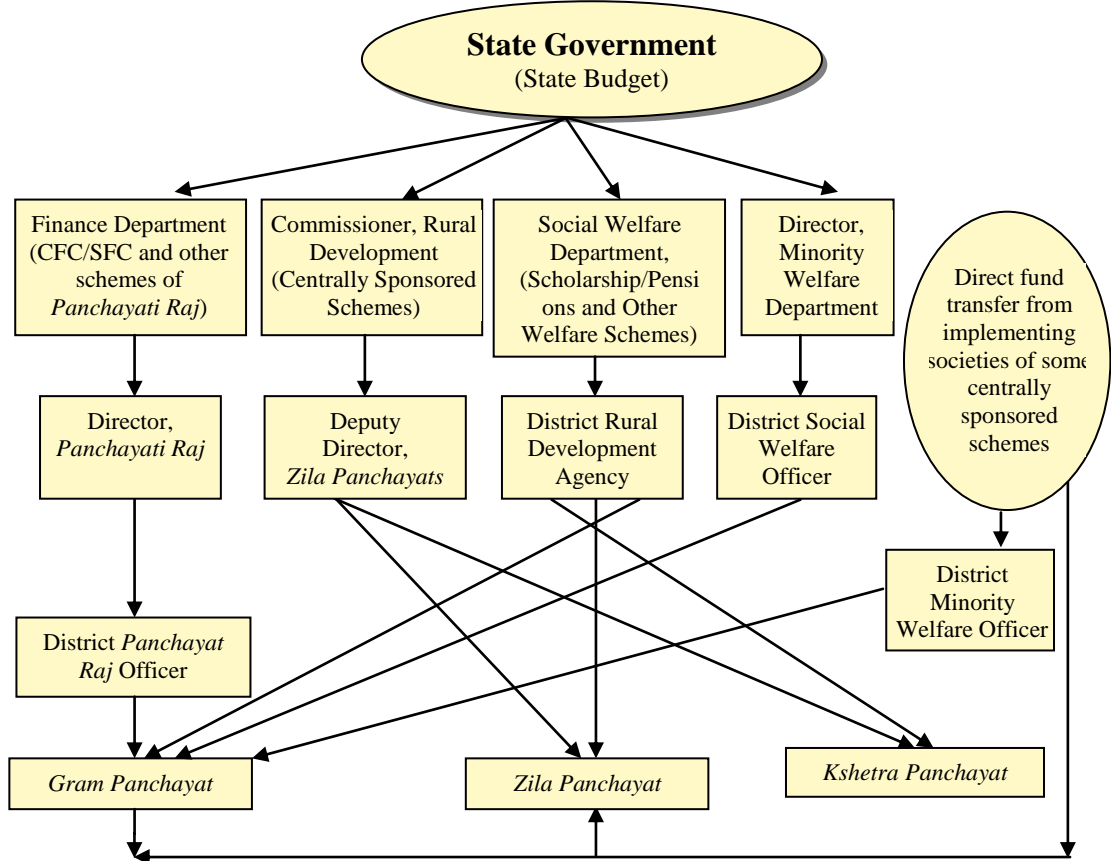
**Table 5 (B): Fund flow arrangements in major Centrally Sponsored Flagship Schemes**

Sl. No.	Scheme	Fund flow arrangement
1.	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GoI and the Government of Uttar Pradesh (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>Indira Awas Yojana (IAY)</i>	GoI transfers its share directly to DRDA through cheques. DRDA draws GoUP's share from district treasury and keeps 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.
3.	Rural Drinking Water Supply Programme (RDWSP)	For Accelerated Rural Water Supply Programme, GoUP transfers funds to Uttar Pradesh <i>Jal Nigam</i> (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.
4.	Total Sanitation Campaign (TSC)	GoI transfers its share directly in Bank accounts 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 also deposits it in the Mission's Bank Account.

(Source: Director, *Panchayati Raj* and Commissioner, Rural Development)



**Chart 2: Fund flow**



(Source: Director, Panchayati Raj)

### 1.9.2 Budgeting and Budgetary Process

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

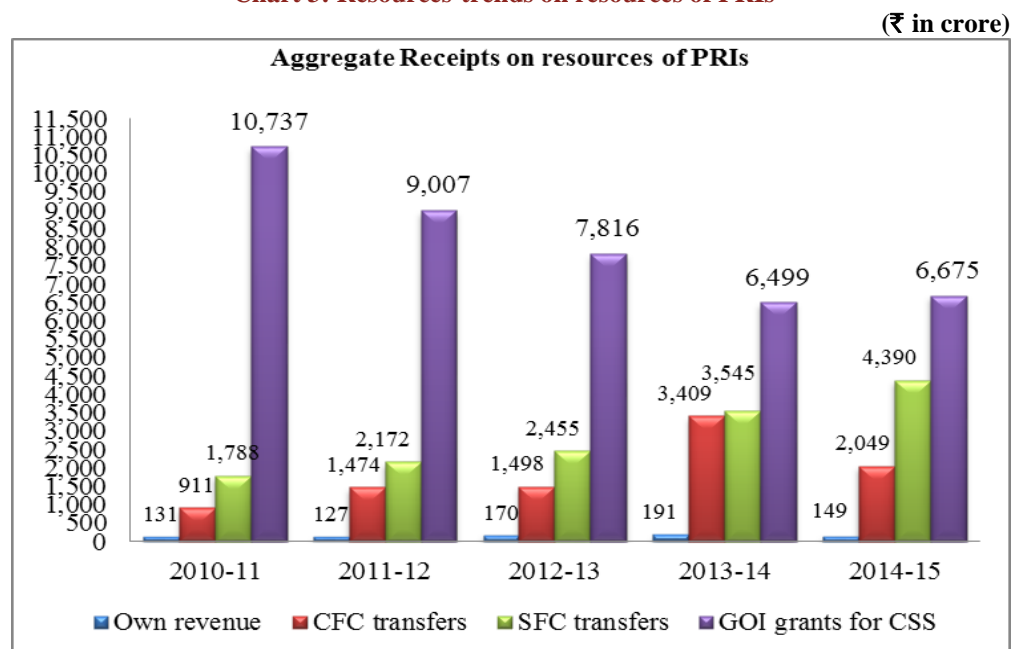
In view of the above, each PRI is to prepare the annual budget in terms of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* Manual<sup>2</sup>. It was noticed in audit during 2014-15 that the annual budget in 32 out of 109 KPs and in all the 741 test-checked GPs were not being prepared. Thus, receipts and flow of actual expenditure were not analysed and monitored by competent authority resulting in substantial amount remain unutilised in each financial year as discussed in paragraph number 1.10.1.

### 1.9.3 Aggregate Receipts

The position of aggregate grants received by PRIs under the recommendations of CFC, SFC, revenue realised from their own sources by charging rent, taxes, fees, etc., from the people as envisaged (*Appendix 1.5*) in Rule 37 of UP PR Act, 1947 and grants released under CSSs for rural development during 2010-15 (*Appendix 1.6*) is depicted in **Chart 3**.

<sup>2</sup> Section 110 and 115.



**Chart 3: Resources-trends on resources of PRIs**

(Source: Director, *Panchayati Raj*, Commissioner, Rural Development and Deputy Director, *Zila Panchayat* Monitoring Cell, UP, Lucknow)

It would be seen from the **Chart 3** that GoI grants for CSS is the largest component of receipts of PRIs but it has been consistently declining over last five years. There is an increasing trend in SFC and CFC grants. The status of generation of own revenue of PRIs indicates oscillating trend and it decreased to ₹ 149 crore in 2014-15 compared to ₹ 191 crore in 2013-14. Hence, the PRIs are largely dependent on the Government grants defeating the objective of making PRIs self-reliant.

#### 1.9.4 Financial status of test-checked PRIs

During 2010-14<sup>3</sup>, records of 3,084 PRIs (ZPs: 133, KPs: 409 and GPs: 2,542) were test-checked in audit. The year-wise financial status of test-checked PRIs during 2010-14 is given in **Table 6**.

**Table 6: Financial status of test-checked PRIs during 2010-14**

(₹ in crore)

Year	Number of test-checked PRIs	Opening balances	Funds received	Total funds available	Expenditure	Closing balances (per cent)
<b>ZPs</b>						
2010-11	11	100.57	145.29	245.86	139.07	106.79 (43)
2011-12	29	192.37	330.72	523.09	294.87	228.22 (44)
2012-13	41	430.05	642.83	1,072.88	442.28	630.60 (59)
2013-14	52	574.41	1,412.35	1,986.76	1,005.95	980.81 (49)
<b>KPs</b>						
2010-11	54 <sup>4</sup>	33.21	102.17	135.38	87.36	48.02 (35)
2011-12	59	35.71	69.36	105.07	64.16	40.91 (39)
2012-13	187 <sup>5</sup>	152.37	220.77	373.14	213.58	159.55 (43)
2013-14	109	89.03	178.11	267.14	171.19	95.95 (36)

<sup>3</sup> PRIs were test-checked up to the financial year 2013-14.

<sup>4</sup> Financial status of 12 out of 54 KPs was not available, hence not included in the table.

<sup>5</sup> Financial status of one out of 187 KPs was not available, hence not included in the table.

GPs						
2010-11	340 <sup>6</sup>	26.32	83.71	110.03	76.31	33.72 (31)
2011-12	187 <sup>7</sup>	10.45	22.69	33.14	24.01	9.13 (28)
2012-13	1,274 <sup>8</sup>	65.64	128.04	193.68	141.45	52.23 (27)
2013-14	741	26.49	121.46	147.95	117.54	30.41 (21)

(Source: Register of Audit Inspection Reports)

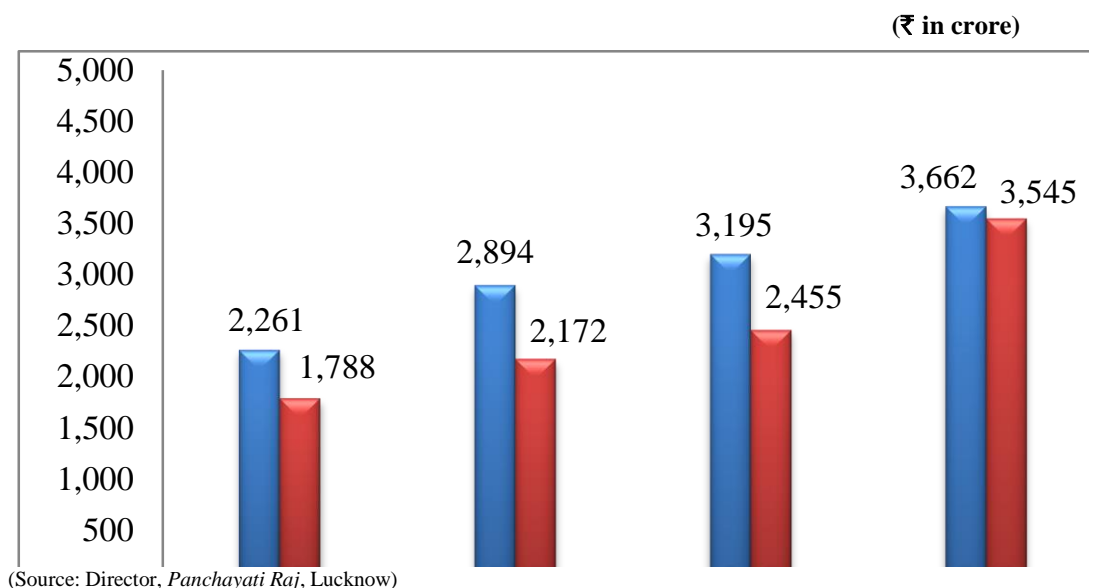
It would be seen from the **Table 6** that substantial funds received by PRIs remained unutilised in each financial year. The unspent balances ranged between 43 and 59 *per cent* in ZPs, 35 and 43 *per cent* in KPs and 21 and 31 *per cent* in GPs during 2010-14. No significant change in the pattern of utilisation of funds was noticed in ZPs and KPs. While in GPs the percentage of the utilisation of funds has improved. The Director, *Panchayati Raj* stated (November 2015) that information has been sought from District *Panchayat Raj* Officers (DPROs) regarding reasons for non-utilisation of funds. Non-utilisation of funds indicated poor planning and non-achievement of intended objectives in a time bound manner.

### 1.9.5 Devolution of SFC grant

The 73<sup>rd</sup> Constitutional Amendment Act, 1992 provided for constitution of State Finance Commission (SFC) to devolve finances to *Panchayats* from the Consolidated Fund of the State (Article 243-I).

The Second SFC also recommended (2002), that five *per cent* of the net proceeds of total tax revenue of the State need to be devolved to PRIs. Considering the importance and need of PRIs, the Third SFC in its recommendations (2008), increased it to 5.5 *per cent* of the net proceeds of total tax revenue. The devolution of funds and actual releases thereagainst to PRIs by GoUP during 2010-15 are depicted in **Chart 4** and **Appendix 1.7**.

**Chart 4: Devolution of funds vis-à-vis net proceeds**



(Source: Director, *Panchayati Raj*, Lucknow)

<sup>6</sup> Financial status of seven out of 340 GPs was not available, hence not included in the table.

<sup>7</sup> Financial status of one out of 187 GPs was not available, hence not included in the table.

<sup>8</sup> Financial status of 13 out of 1,274 GPs was not available, hence not included in the table.

It would be seen from the **Chart 4** that there was an overall short devolution of funds (₹ 2,052 crore) during 2010-14, the maximum being 25 per cent during 2011-12. However, steady improvement in devolution was noticed in the past five years. In reply the Director, *Panchayati Raj* stated (November 2015) that information from the Finance Department of the State has been sought.

### 1.9.6 Recommendations of the State Finance Commission

The status of grants available under SFC, its utilisation and non-utilisation thereof during 2010-15 is given in **Table 7**.

**Table 7: Utilisation of Grants received under SFC**

Sl. No.	Year	Grants received	Grants utilised	Grants not utilised	
				Lapsed	Balance
1	2010-11	1,787.57 <sup>9</sup>	1,787.57	0.00	0.00
2	2011-12	2,172.37	2,168.16 <sup>10</sup>	4.21	0.00
3	2012-13	2,455.04	2,455.04	0.00	0.00
4	2013-14	3,544.81	3,544.81	0.00	0.00
5	2014-15	4,390.18	4,390.18	0.00	0.00

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

It is evident from the **Table 7** that ₹ 4.21 crore lapsed during 2011-12. In the year 2010-11 and during 2012-15 whole of the received grants were utilised, though the test check of the records of 11 ZPs for the period 2011-14 shows that, ₹ 117.71 crore<sup>11</sup> of SFC grants remained unutilised in PRIs (**Appendix 1.8**). As regard the reasons for balances, in test-checked PRIs the Director, *Panchayati Raj* stated (November 2015) that information from the DPROs has been sought to clarify the status. The reply is not acceptable as the Director, *Panchayati Raj* is overall responsible at the State level for monitoring utilisation of grants released to PRIs.

### 1.9.7 Recommendations of the Central Finance Commission

The status of funds available under Central Finance Commission and its utilisation thereof is given in **Table 8**.

**Table 8: Utilisation of grants received under CFC**

Year	Total grants available	Grants utilised	Grants not utilised	
			Lapsed	Balance
2010-11	911.29	911.29	0.00	0.00
2011-12	1,473.51	1,473.51	0.00	0.00
2012-13	1,498.45	1,498.45	0.00	0.00
2013-14	3,408.67	3,408.67	0.00	0.00
2014-15	2,048.65	2,048.65	0.00	0.00

(Source: Director, *Panchayati Raj*, Lucknow)

<sup>9</sup> Variation from the figure of ATIR 2011 is due to different sets of data provided by the Director, *Panchayati Raj*.

<sup>10</sup> Variation from the figure of ATIR 2014-15 is due to different sets of data provided by the Director, *Panchayati Raj*.

<sup>11</sup> The year-wise closing balance for 2011-12: ₹ 31.93 crore; for 2012-13: ₹ 41.36 crore; and for 2013-14: ₹ 44.42 crore.

**Table 8** indicates that entire grant<sup>12</sup> during 2010-15 was utilised, though the test check of the records of 11 ZPs for the period 2011-14 shows that, ₹ 112.32 crore<sup>13</sup> of CFC funds remained unutilised in PRIs (**Appendix 1.9**). As regard the reasons for balances, in test-checked PRIs the Director, *Panchayati Raj* stated (November 2015) that information from the DPROs has been sought to clarify the position. The reply is not acceptable as the Director, *Panchayati Raj* is overall responsible at the State level for monitoring utilisation of grants by PRIs. The details of recommendations of the Thirteenth Finance Commission in PRIs are given in relevant paragraphs of Chapter 2.1 Performance Audit on “Utilisation of Thirteenth Finance Commission grants in PRIs”.

### 1.9.8 Maintenance of Records

Financial rules, Uttar Pradesh *Kshetra Samiti and Zila Parishad Works Rules*, 1984 and Uttar Pradesh *Panchayat Raj Act*, 1947 prescribe maintenance of requisite records and documents in respect of works executed and financial transaction carried out by ZPs, KPs and GPs. Maintenance of basic records prescribed under rules was found inadequate in test-checked ZPs, KPs and almost non-existent in test-checked GPs. The details of non-maintenance of records in test-checked PRIs are given in paragraph 2.1.7 of Chapter 2.1 Performance Audit on “Utilisation of Thirteenth Finance Commission grants in PRIs”.

### 1.9.9 Maintenance of Accounts by Panchayati Raj Institutions

The Eleventh Finance Commission (EFC) recommended exercising control and supervision over the proper maintenance of accounts and their audit for all the three tiers of PRIs by the CAG. Para 10.161 of Thirteenth Finance Commission also recommended that the State Government would be eligible to draw its Performance Grant for succeeding fiscal year on production of a certificate that accounting system as recommended by the CAG has been introduced in all the Rural and Urban Local Bodies.

The CAG had prescribed Model Accounting System developed by National Informatics Centre for PRIs on web based software (PRIASoft) comprising of eight accounting formats. Ministry of *Panchayati Raj* (MoPR), GoI advised (October 2009) the State Government to introduce PRIASoft with effect from April 2010. Subsequently (January 2011), the State Government also made it mandatory to maintain accounts on PRIASoft with effect from 1 April 2010. However, out of eight formats, reports in only three formats (Annual Receipt & Payment Account, Consolidated Abstract Register and Monthly Reconciliation Statement) were being generated by ZPs and KPs as of October 2015. In GPs, only Annual Receipt and Payment Account and Consolidated Abstract Register were being generated as of October 2015.

<sup>12</sup> Different sets of figures for grants were provided by the Director, *Panchayati Raj* for PA on "Utilisation of Thirteenth Finance Commission grants in *Panchayati Raj* Institutions".

<sup>13</sup> The year-wise closing balance for 2011-12: ₹ 22.13 crore; for 2012-13: ₹ 38.22 crore; and for 2013-14: ₹ 51.97 crore.

Non-maintenance of accounts in all the eight formats prescribed by the CAG was not only against the recommendations of the EFC but also did not depict the complete picture of PRIs account.

### **1.10 Conclusion**

- The number of outstanding paragraphs (22,029) in 2014-15 shows the lackadaisical approach of the State Government towards financial discipline.

*(Paragraph 1.6)*

- Budget was not being prepared in all test-checked GPs due to which status of receipt and actual expenditure could not be analysed and monitored.

*(Paragraph 1.9.2)*

- Large amount of grants under Centrally Sponsored Scheme, State Finance Commission, Central Finance Commission etc. were devolved to PRIs during 2010-15 whereas there was no significant increase in generation of own revenue during this period resulting in large dependency on the Government grant.

*(Paragraph 1.9.3)*

- PRIs were not maintaining accounts in all the eight formats (PRIASoft) prescribed by the Comptroller and Auditor General of India due to which accuracy of accounts could not be examined.

*(Paragraph 1.9.9)*

The matter was reported (December 2015) to the State Government; their reply was awaited (January 2016).