
CHAPTER I

***ACCOUNTS AND FINANCES
OF PANCHAYATI
RAJ INSTITUTIONS***

SECTION A

CHAPTER I

ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

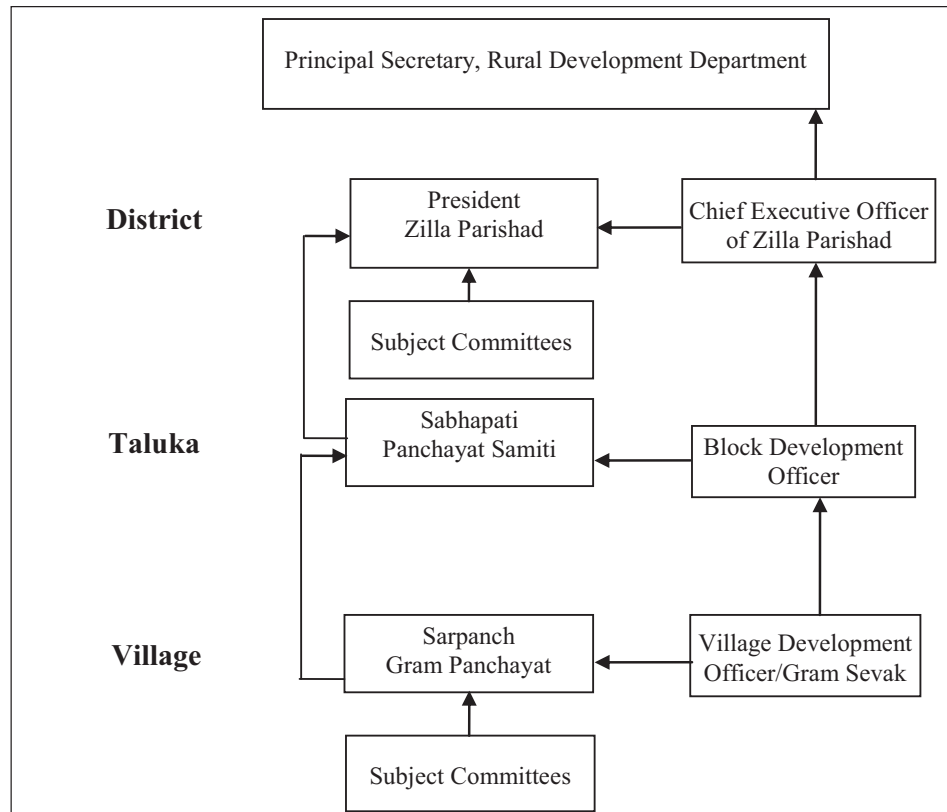
1.1 Introduction

In conformity with the provisions of the 73rd Constitutional Amendment, the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP/PS Act) and the Maharashtra Village Panchayats Act, 1958 (VP Act) were amended in 1994. A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PSs) at the block level and Gram Panchayats (GPs) at the village level were established in the State. As per 2011 Census, the total population of the State stood at 11.24 crore of which, 55 per cent was from rural areas.

1.2 Organisational set up

The organisational set up of PRIs in Maharashtra is depicted below:

Chart 1: Organisational structure of PRIs



The Chief Executive Officer (CEO) in the ZP, the Block Development Officer (BDO) in the PS and the Village Development Officer (VDO)/Gram Sevak in the GP report functionally to the respective elected bodies and

administratively to their next superior authority in the State Government hierarchy.

There were 28,006 GPs for 44,151 villages in Maharashtra. The VDO/Gram Sevak, a village level functionary, functions as Secretary to the GP and is also responsible for maintenance of accounts and records at GP level. However, sanctioned strength of VDOs/Gram Sevaks was 23,334 which show that even one VDO/Gram Sevak post was not sanctioned for each GP. The persons-in-position was 21,606 only with a shortage of 1,728 as of December 2014. No reasons were on record for not sanctioning and filling up of the 1,728 posts of VDOs/Gram Sevaks.

1.3 Powers and Functions

1.3.1 There are 35 districts in Maharashtra. Two districts (Mumbai and Mumbai suburban) do not have rural areas and therefore, there are 33 ZPs in the State. The ZPs have departments for Education, Public Works, Health, Minor Irrigation, Rural Water Supply, Social Welfare, Animal Husbandry, Agriculture, Women and Child Welfare, Integrated Child Development, Finance, General Administration and Village Panchayat.

1.3.2 The ZPs are required to prepare a budget for the planned development of the district and utilisation of the resources. The Government of India (GoI) Schemes funded through the District Rural Development Agency (DRDA) and the State Government Schemes are also implemented by the ZPs. The ZPs are empowered to impose water tax, pilgrim tax and special tax on land and buildings.

1.3.3 The intermediate tier of Panchayats at the Taluka level in Maharashtra is called the Panchayat Samitis. There are 351 PSs in the State. The PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. The PSs undertake developmental works at the block level.

1.3.4 The VP Act provides for the constitution of Gram Sabha, which is the body consisting of persons registered in the electoral rolls of the villages within the GP area. The GPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/entertainment, taxes on bicycles, vehicles, shops, hotels *etc.*

1.3.5 Gram Sabhas are required to meet periodically. They select beneficiaries for the State/Central Government Schemes, prepare and approve development plans and projects to be implemented by the GPs, grant permission for incurring expenditure by GPs on developmental schemes. They also convey their views on the proposals for acquisition of land by GPs.

1.3.6 The broad accountability structure in PRIs is as shown in **Table 1**:

Table 1: Accountability structure in PRIs

PRIs	Functions Assigned
Zilla Parishad , CEO	<ol style="list-style-type: none"> 1. Drawal and disbursal of fund 2. Preparation of annual budget and accounts 3. Supervision and control of officers of the ZP 4. Finalisation of contracts 5. Publishing statement of accounts of ZPs in the Government Gazette
Chief Accounts and Finance Officer (CAFO), ZP	<ol style="list-style-type: none"> 1. Compilation of the accounts of ZP 2. Providing financial advice
Heads of Departments (HoDs) in ZPs	<ol style="list-style-type: none"> 1. According technical sanctions to the works and implement development Schemes 2. Supervising the work of Class II officers
Panchayat Samiti, BDO	<ol style="list-style-type: none"> 1. Drawal and disbursal of funds 2. Execution and monitoring of Schemes and maintenance of accounts and records
Gram Panchayat, Gram Sevak	<ol style="list-style-type: none"> 1. Secretary to the Gram Sabha 2. Execution and monitoring of Schemes and maintenance of accounts and records

1.4 Funding of Panchayati Raj Institutions

1.4.1 The District Fund consists of money received from State budget funds for plan and non-plan State schemes, assigned tax and non-tax revenues, receipts of ZPs, interest on investments *etc.*

1.4.2 The cash grants are released to the ZPs through the Budget Distribution System (BDS) by the respective administrative departments.

1.4.3 Introduction of distribution of cash grants however, does not dispense with the system of assessment of grants of different departments in ZPs by the administrative departments.

1.5 Devolution of funds

Allocation of funds

Article 243 (I) of the Constitution requires that the State Finance Commission (SFC) be appointed at the expiration of every fifth year.

The Second Maharashtra SFC recommended (March 2002) allocation of 40 *per cent* of State revenues to Local Bodies (LBs). The State Government while placing the Action Taken Note (March 2006) in the State Legislature on Second SFC's recommendation expressed its inability to accept the above recommendation on the ground that they were already giving various grants towards natural calamity, rehabilitation of farmers, assistance for increased electricity bills to farmers. The total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs as well as to Urban Local Bodies (ULBs) during 2009-10 to 2013-14 is shown in **Table 2**.

Table 2: Details of total revenue of the State and its allocation to PRIs and ULBs during 2009-14

(₹ in crore)					
Head	2009-10	2010-11	2011-12	2012-13	2013-14
State's total revenue (Tax and non-tax)	67458.95	83252.14	95776.16	113432.98	119949.93
Amount required to be allocated as per Second SFC to LBs (40 per cent)	26983.58	33300.86	38310.46	45373.19	47979.97
Actual allocation to PRIs	11726.62	13260.93	14294.73	16444.42	18184.73
Actual allocation to PRIs as a percentage of States' total revenue	17.38	15.93	14.93	14.50	15.16
Actual allocation to ULBs	1708.89	4350.04*	4871.33	4401.93	5179.74
Actual allocation to ULBs as a percentage of States' total revenue	2.53	5.23	5.08	3.88	4.32
Total allocation to PRIs and ULBs	13435.51	17610.97	19166.06	20846.35	23364.47
Actual allocation to PRIs and ULBs as a percentage of States' total revenue	19.92	21.16	20.01	18.38	19.48
Source: Figures adopted from CAG's Audit Report on State Finances and Finance Accounts, Government of Maharashtra for all the years					
*Huge variation was due to misclassification in previous year as mentioned in CAG's Report on State Finances for the year 2010-11, Government of Maharashtra					

It would thus, be seen that only 19.48 per cent of the State's total revenue was allocated to the LBs during 2013-14.

The Fourth SFC was constituted in February 2011 for the period 2011-12 to 2015-16 and was to submit its report to the State Government by September 2012. However, the date for submission of report was extended by the State Government up to December 2014.

1.6 Transfer of functions and functionaries

1.6.1 The 73rd Constitutional Amendment envisaged that all the 29 functions along with funds and functionaries mentioned in the XI Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

1.6.2 The State Government has transferred 16 functions and 15,480 functionaries to PRIs. Non-transfer of functions and functionaries has also been commented in earlier Audit Reports.

1.7 Receipts and expenditure of PRIs

(A) Zilla Parishads

1.7.1 As per information provided by 31 of 33 ZPs, the position of revenue/capital receipts, revenue/capital expenditure in respect of ZPs and PSs

for the period from 2009-10 to 2013-14 is given in **Table 3** (PSs accounts were incorporated in ZP Accounts):

Table 3: Details of receipts and expenditure of ZPs and PSs for the period 2009-14
(₹ in crore)

Year	Receipts						Expenditure		
	Own ¹ revenue	Government grants	Other revenue	Total revenue receipts	Total capital receipts	Total receipts	Revenue	Capital	Total
2009-10	481	15240	278	15999	3573	19572	15309	3365	18674
2010-11	627	17721	307	18655	3939	22594	20847	4981	25828
2011-12	703	19762	376	20841	5105	25946	20507	4114	24621
2012-13	1014	21630	692	23336	10290	33626	21835	8168	30003
2013-14 [^]	1301	23423	473	25197	9791	34988	23398	8935	32333

Source: Data furnished by ZPs
[^]Information not furnished by Chandrapur and Parbhani ZPs

(B) Gram Panchayats

The details of receipts and expenditure (revenue and capital) of GPs provided by 29 of 33 ZPs during 2009-10 to 2013-14 are as shown in **Table 4**.

Table 4: Details of receipts and expenditure of GPs during 2009-14

(₹ in crore)

Year	Total Receipts					Total Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
2009-10	627	525	155	285	1592	1359
2010-11	618	745	158	193	1714	1560
2011-12	1163	1376	336	331	3206	3047
2012-13	1235	832	189	628	2884	2350
2013-14 #	1229	917	260	450	2856	3339

Source: Data furnished by ZPs
#Information not furnished by Chandrapur, Nanded, Parbhani and Raigad ZPs.

1.7.2 The component-wise details of expenditure (revenue and capital) of GPs and ZPs including PSs during 2011-14 is as shown in **Table 5**.

¹ Excludes opening balance

Table 5: Component-wise details of expenditure of GPs and ZPs including PSs during 2011-14

(₹ in crore)

Sr. No.	Components	GPs expenditure			ZPs and PSs expenditure		
		2011-12	2012-13	2013-14 [@]	2011-12	2012-13	2013-14 [§]
1.	Education	122	60	45	9705	10894	10594
2.	Health and Sanitation	708	457	453	1627	1547	1527
3.	Public Works	1180	843	928	1351	1404	1453
4.	Social Welfare	223	127	105	954	776	842
5.	Irrigation	65	05	50	451	778	594
6.	Animal Husbandry	09	05	45	286	321	371
7.	Agriculture	12	07	16	193	345	364
8.	Public lighting	70	47	66	36	25	0
9.	Forest	01	01	03	27	0	0
10.	Administration	507	323	347	1649	2004	1729
11.	Rural Water Supply	*	54	0	*	348	405
12.	Women and Child	*	01	0	*	573	465
13.	Other expenditure	146	76	778	4228	2820	5054
14.	Capital expenditure	04	344	503	4114	8168	8935
Total		3047	2350	3339	24621	30003	32333

Source: Data furnished by ZPs
 * Information not furnished separately by GPs, ZPs and PSs
 @ Expenditure of GPs provided by 29 ZPs
 § Expenditure of ZPs and PSs provided by 31ZPs

1.7.3 The works undertaken by the ZPs are categorized as: (i) ZPs own schemes; (ii) Schemes transferred/funded by the State Government; and (iii) Schemes funded by other agencies. Information received from 29 of the 33 ZPs for the year 2013-14 revealed that these ZPs incurred an expenditure of ₹ 28,969 crore (₹ 23,392 crore on transferred schemes, ₹ 3,454 crore on agency schemes and ₹ 2,123 crore on ZPs own schemes).

1.8 Accounting arrangements

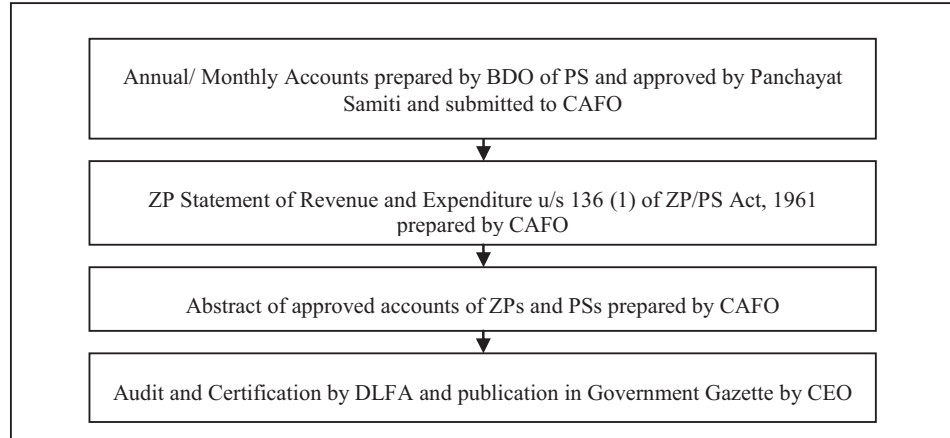
1.8.1 Under the provisions of Section 136 (2) of the ZP/PS Act, the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts. Under provisions of Section 62 (4) of the VP Act, the Secretaries of the GPs are required to prepare annual accounts of GPs. A Performance Audit on quality of maintenance of accounts in PRIs in Maharashtra State was also conducted and commented in Chapter II of the Report of the Comptroller and Auditor General of India (Local Bodies), GoM for the year ended 31 March 2008.

1.8.2 In accordance with the provisions of Section 136 (1) of the ZP/PS Act and Rule 66 A of the Maharashtra Zilla Parishads and Panchayat Samitis (MZP&PS) Account Code, 1968, CEOs of ZPs are required to prepare annually statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year to which the statement relates.

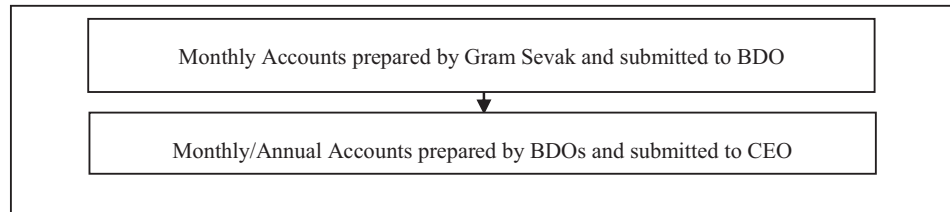
The accounts are then placed before the Finance Committee and finally before the ZPs for approval along with the Finance Committee reports.

1.8.3 The abstracts of the approved accounts of the ZPs/PSs are prepared by CAFO and forwarded to Director, Local Fund Audit (DLFA) for audit, certification and publication in the Government Gazette.

Chart 2: Flow Chart of Accounts compilation in ZPs and PSs



Flow Chart of Accounts compilation in GPs



1.8.4 As per Section 136 of ZP/PS Act and Rule 66 of MZP&PS Account Code, 1968, the prescribed date for preparation and approval of annual accounts of ZPs for a financial year is 30 September of the following year and accounts of ZPs are required to be published in the Government Gazette by 15 November of the year. Accordingly, the accounts for 2013-14 should have been finalized by September 2014 and published by November 2014.

The Rural Development and Water Conservation Department (Department) stated (March 2015) that the accounts up to the year 2010-11 have been published in the Government Gazette and submitted to the State Legislature. The Department added that finalization of the accounts for the year 2011-12 was in the final stage and would be placed in the coming session of the State Legislature. The finalization of accounts for the year 2012-13 was in progress.

1.8.5 Non-adoption of format of accounts prescribed by the Comptroller and Auditor General of India

The Eleventh Finance Commission (EFC) had recommended that the Comptroller and Auditor General of India exercise control and supervision over the proper maintenance of accounts of LBs. Accordingly, the Comptroller and Auditor General of India had prescribed the formats for maintenance of accounts by PRIs in 2002. This was followed by simplified formats in 2007 and 2009. The State Government was required to amend the MZP&PS Account Code, 1968 and Maharashtra Village Panchayat (Budget and

Accounts) Rules, 1959 for adoption of the accounts formats prescribed by the Comptroller and Auditor General of India. It was however, observed that the State Government has not yet amended MZP&PS Account Code and Maharashtra Village Panchayat (Budget and Accounts) Rules as of March 2015 due to which, accounts in the prescribed formats were not maintained in any of the ZPs.

The Department stated (March 2015) that it has been made mandatory for the PRIs to maintain their accounts in the format prescribed by the Comptroller and Auditor General of India *vide* Government Resolution dated 05 October 2013. Accordingly, process to amend the MZP&PS Account Code, 1968 and Maharashtra Village Panchayat (Budget and Accounts) Rules, 1959 was in progress.

1.8.6 Pending assessment of grants

The grants released by the State Government to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year according to Government orders (May 2000). They were to inform the Rural Development and Water Conservation Department about the amounts recoverable from/payable to ZPs for adjustment and further release of grants.

It was however, observed that in 22 of 33 ZPs², there were arrears in assessment of grants in respect of 10 Departments is as indicated in **Table 6**.

Table 6: Position of arrears in assessment of grants

Sr. No.	Name of department	Period of arrears
1.	Education	2000-2014
2.	Agriculture	1998-2014
3.	Social Welfare	2000-2014
4.	Animal Husbandry	1999-2014
5.	Public Health	2000-2014
6.	Family Welfare	2001-2014
7.	Water Supply and Sanitation	2000-2014
8.	Women and Child Welfare	1998-2014
9.	Minor Irrigation	1998-2014
10.	Public Works	1999-2014
Source: Information furnished by ZPs		

The Department stated (November 2014) that the cash grants were released to the ZPs through BDS by the respective Administrative Departments. All the Administrative Departments have been directed to clear the arrears in assessment of grants.

1.9 Thirteenth Finance Commission Grants

The State Government released ₹ 3,562.18 crore as per recommendations of the 13th Finance Commission of which, ₹ 1,690.39 crore (47 *per cent*) has been spent as of March 2014.

² Aurangabad, Beed, Buldhana, Chandrapur, Jalna, Latur, Nashik, Parbhani, Sangli, Washim and Yawatmal did not furnish any information

1.10 Audit arrangements

1.10.1 Audit by Director, Local Fund Audit

The Audit of PRIs is conducted by DLFA in accordance with the provisions of the Maharashtra Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act, 1958. DLFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

It was observed that Local fund (transaction) audit of all ZPs and PSs was conducted for the year 2013-14. The consolidated Audit Review Report for the year 2011-12 was prepared by DLFA and presented to the State Legislature in June 2014.

1.10.2 Audit by Comptroller and Auditor General of India

The Comptroller and Auditor General of India conducts audit of ZPs and PSs under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Section 142 A of the ZP Act, 1961 also contains an enabling provision for audit by the Comptroller and Auditor General of India.

Audit of GPs was also entrusted (March 2011) to the Comptroller and Auditor General of India under Technical Guidance and Supervision by the GoM under Section 20 (1) of the Comptroller and Auditor General's (DPC) Act, 1971.

1.10.3 Formation of District Level Audit Committees

The GoM directed (March 2001) the ZPs to constitute District Level Audit Committees (DLACs) for discussion and settlement of outstanding audit objections raised by DLFA and the Principal Accountant General/Accountant General, Maharashtra. The Department informed (December 2014) audit that against 2,38,239 outstanding paragraphs, 12,069 paragraphs³ were cleared during 2013-14.

1.10.4 Outstanding Paragraphs from DLFA Reports

As per Annual Audit Review Report of DLFA for the year 2011-12, 1,22,366 paragraphs in respect of Government funds involving ₹ 10,538.02 crore and 34,736 paragraphs pertaining to ZPs own funds involving ₹ 2,27,988 crore were pending for settlement for the period from 1962 to 2012.

1.10.5 Outstanding Inspection Reports and Paragraphs of Accountant General

Audit observations on financial irregularities and defects in initial accounts/records noticed during local audit by the Principal Accountant General/Accountant General, Maharashtra but not settled on the spot are communicated to the heads of offices and departmental authorities through Inspection Reports. More important and serious irregularities are reported to the Government. Statements indicating the number of observations outstanding over six months are also sent to the Government for expediting

³ Accountant General: 1,336; Local Fund Audit: 9,721 and Panchayati Raj Committee: 1,012

their settlement.

For efficient implementation of the schemes transferred to the PRIs and ensuring accountability, all deficiencies pointed out by the Principal Accountant General/Accountant General are required to be complied with promptly.

At the end of March 2014, 5,053 Inspection Reports containing 17,567 paragraphs pertaining to PRIs issued by audit were pending settlement despite holding four Audit Committee Meetings during 2013-14. The position of outstanding Inspection Reports and paragraphs is indicated in **Table 7** below.

Table 7: Position of outstanding Inspection Reports and paragraphs

Year	Inspection Reports	Paragraphs
Up to 2010-11	4214	12269
2011-12	345	2106
2012-13	197	1205
2013-14	297	1987
Total	5053	17567

The high number of outstanding old Inspection Reports and paragraphs indicated weak internal controls in the PRIs.

1.11 Conclusion

The functioning of Panchayati Raj Institutions in the State revealed that:

- allocations to Local Bodies were meagre at 19.48 *per cent* (Panchayati Raj Institutions: 15.16 *per cent* and Urban Local Bodies: 4.32 *per cent*) as against 40 *per cent* of the total State's revenue recommended by the Second Maharashtra State Finance Commission;
- of the 29 functions listed in the XI Schedule of the Constitution of India, only 16 functions were transferred to Panchayati Raj Institutions;
- though the accounts of all the 33 ZPs up to the year 2010-11 were published and submitted to the State Legislature, the accounts for the year 2011-12, 2012-13 and 2013-14 were yet to be finalised and published; and
- the Maharashtra Zilla Parishads and Panchayat Samitis Account Code, 1968 and Maharashtra Village Panchayat (Budget and Accounts) Rules, 1959 have not been amended. As a result, accounts in the formats prescribed by the Comptroller and Auditor General of India were not maintained in any of the Zilla Parishads.