

---

*CHAPTER I*

*ACCOUNTS AND FINANCES  
OF PANCHAYATI  
RAJ INSTITUTIONS*

---



## SECTION A

### CHAPTER I

## ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

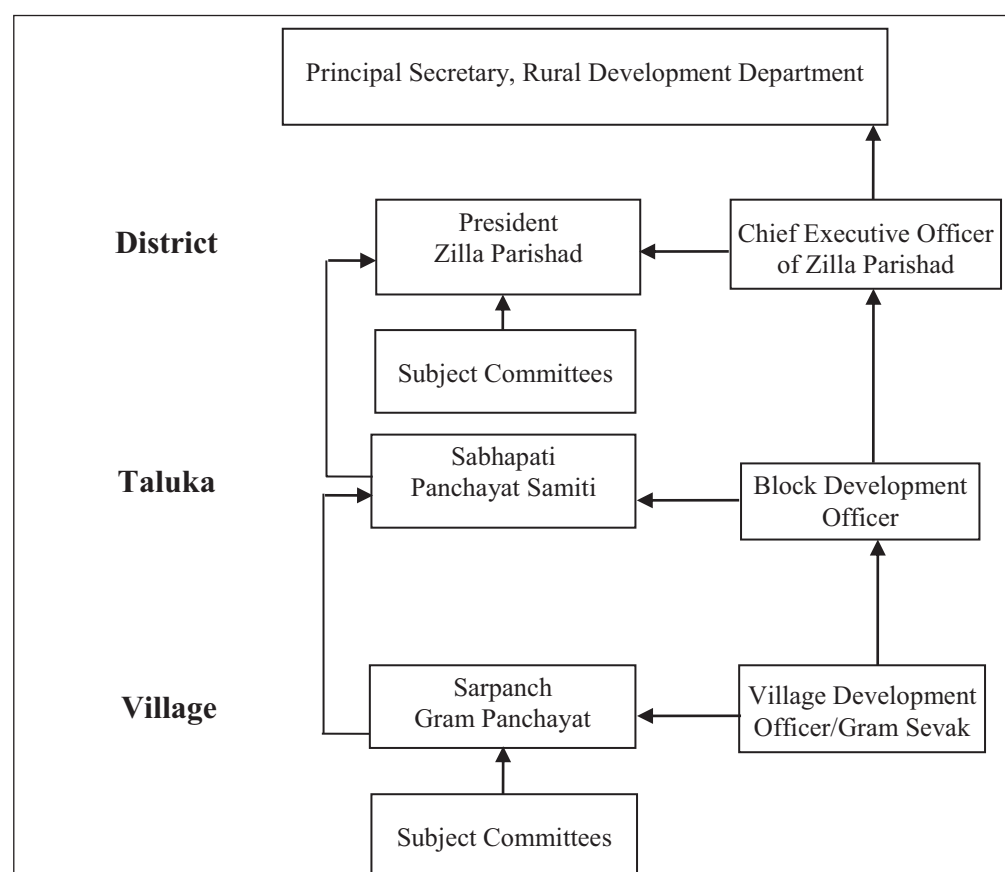
### 1.1 Introduction

In conformity with the provisions of the 73<sup>rd</sup> 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 28,005 GPs for 44,096 villages in Maharashtra as of March 2015. 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 22,901 which show that not even one VDO/Gram Sevak post was sanctioned for each GP. The persons-in-position was 20,999 only with a shortage of 1,902 as of December 2015. No reasons were on record for not sanctioning and filling up of 1,902 posts of VDOs/Gram Sevaks.

### **1.3 Powers and Functions**

**1.3.1** There are 36 districts in Maharashtra. Two districts (Mumbai and Mumbai suburban) do not have rural areas and therefore, there are 34<sup>1</sup> ZPs in the State. The ZPs have their own 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 Central/State 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.

---

<sup>1</sup> Palghar District was created in August 2014

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

**Table 1: Accountability structure in PRIs**

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

## **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 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 2010-11 to 2014-15 is shown in **Table 2**.

**Table 2: Details of total revenue of the State and its allocation to PRIs and ULBs during 2010-15**

(₹ in crore)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
State's total revenue (Tax and non-tax)	83252.14	95776.16	113432.98	119949.93	127644.79
Amount required to be allocated as per Second SFC to LBs (40 per cent)	33300.86	38310.46	45373.19	47979.97	51057.92
Actual allocation to PRIs	13260.93	14294.73	16444.42	18184.73	18769.44
Actual allocation to PRIs as a percentage of State's total revenue	15.93	14.93	14.50	15.16	14.70
Actual allocation to ULBs	4350.04	4871.33	4401.93	5179.74	5172.30
Actual allocation to ULBs as a percentage of State's total revenue	5.23	5.08	3.88	4.32	4.05
Total allocation to PRIs and ULBs	17610.97	19166.06	20846.35	23364.47	23941.74
Actual allocation to PRIs and ULBs as a percentage of State's total revenue	21.16	20.01	18.38	19.48	18.75

Source: Figures adopted from CAG's Audit Report on State Finances and Finance Accounts, Government of Maharashtra for the years from 2010-11 to 2014-15

It would thus, be seen that only 18.75 per cent of the State's total revenue was allocated to PRIs and ULBs during 2014-15. The Third SFC did not make any specific recommendation on allocation of funds to PRIs and ULBs from State's revenue.

The Fourth SFC was constituted in February 2011 and was to submit its report to the State Government by September 2012 for implementation of its recommendations during 2011-12 to 2015-16. However, the date for submission of report was extended by the State Government up to December 2014. Thereafter, no further extension was granted to Fourth SFC and its report was under finalization (January 2016).

## **1.6 Transfer of functions and functionaries**

**1.6.1** The 73<sup>rd</sup> 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 only 14 functions and 15,840 functionaries to PRIs. Non-transfer of all 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 all 34 ZPs, the position of revenue/capital receipts, revenue/capital expenditure in respect of ZPs and PSs for the period from 2010-11 to 2014-15 was as shown in Table 3 (PSs accounts were incorporated in ZP Accounts).

Table 3: Details of receipts and expenditure of ZPs and PSs for the period 2010-15

(₹ in crore)

Year	Receipts						Expenditure		
	Own <sup>2</sup> revenue	Government grants	Other revenue	Total revenue receipts	Total capital receipts	Total receipts	Revenue	Capital	Total expenditure
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
2014-15	3007	26473	834	30314	7796	38110	28701	8212	36913

Source: Data furnished by ZPs

### (B) Gram Panchayats

The details of receipts and expenditure (revenue and capital) of GPs provided by 32 of 34 ZPs during 2010-11 to 2014-15 are as shown in Table 4.

Table 4: Details of receipts and expenditure of GPs during 2010-15

(₹ in crore)

Year	Total Receipts					Total expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
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
2014-15 <sup>#</sup>	1899	1000	310	1083	4292	4219

Source: Data furnished by ZPs  
#Information not furnished by Akola and Nanded ZPs

1.7.2 The component-wise details of expenditure (revenue and capital) of GPs and ZPs including PSs during 2012-15 is as shown in Table 5.

<sup>2</sup> Excludes opening balance

**Table 5: Component-wise details of expenditure of GPs and ZPs including PSs during 2012-15.**

(₹ in crore)

Sr. No.	Components	GPs expenditure			ZPs and PSs expenditure		
		2012-13	2013-14	2014-15 <sup>@</sup>	2012-13	2013-14	2014-15 <sup>§</sup>
1.	Education	60	45	49	10894	10594	13725
2.	Health and Sanitation	457	453	564	1547	1527	1715
3.	Public Works	843	928	1232	1404	1453	1820
4.	Social Welfare	127	105	169	776	842	920
5.	Irrigation	05	50	71	778	594	477
6.	Animal Husbandry	05	45	8	321	371	427
7.	Agriculture	07	16	29	345	364	340
8.	Public lighting	47	66	86	25	0	0
9.	Forest	01	03	8	0	0	0
10.	Administration	323	347	543	2004	1729	2615
11.	Rural Water Supply	54	0	0	348	405	1063
12.	Women and Child	01	0	0	573	465	465
13.	Other expenditure	76	778	824	2820	5054	5134
14.	Capital expenditure	344	503	636	8168	8935	8212
<b>Total</b>		<b>2350</b>	<b>3339</b>	<b>4219</b>	<b>30003</b>	<b>32333</b>	<b>36913</b>

*Source: Data furnished by ZPs*  
<sup>@</sup> Expenditure of GPs provided by 32 ZPs  
<sup>§</sup> Expenditure of ZPs and PSs provided by 34 ZPs

**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 34 ZPs for the year 2014-15 revealed that these ZPs incurred an expenditure of ₹ 34,695 crore (₹ 28,083 crore on transferred schemes, ₹ 3,322 crore on agency schemes and ₹ 3,290 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 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.

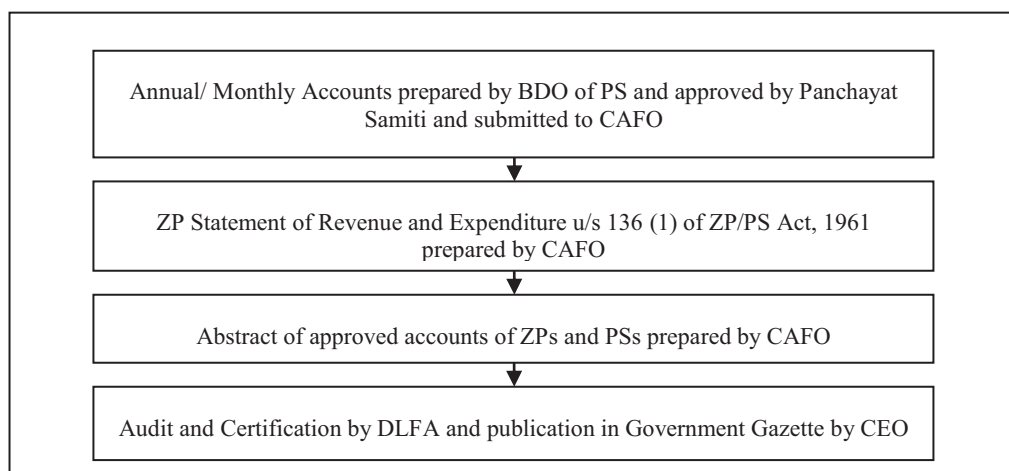
**1.8.2** In accordance with the provisions of Section 136 (1) of the ZP/PS Act and Rule 66 A of the Maharashtra Zilla Parishads and Panchayat Samitis (MZP&PS) Account Code, 1968, CEOs of ZPs are required to prepare annually statements of accounts of revenue and expenditure of the ZPs along with statements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



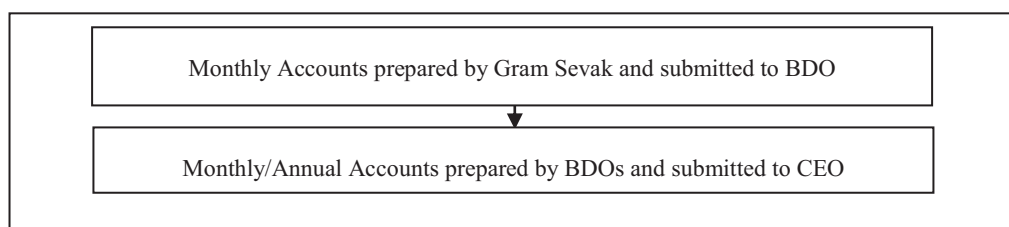
Finance Committee and finally before the ZPs for approval along with the Finance Committee reports.

**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 (1) of ZP/PS Act and Rule 66 A of MZP&PS Account Code, 1968, the prescribed date for 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 2014-15 should have been finalized by September 2015 and published by November 2015.

The Rural Development and Water Conservation Department (Department) stated (December 2015) that the annual accounts for the year 2011-12 have been submitted to the State Legislature in July 2015. Annual accounts for the year 2012-13 have been prepared and were under printing and would be placed in the coming session of the State Legislature.

Thus, there was a delay of more than three and two years in finalization and publication of annual accounts of 2011-12 and 2012-13 respectively. Further, the annual accounts of 2013-14 and 2014-15 were yet to be finalized.

### 1.8.5 Non-adoption of format of accounts recommended 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 at all the three levels. Accordingly, the Comptroller and Auditor General of India had recommended 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; The Bombay Village Panchayat (Budget and Accounts) Rules, 1959; and The Maharashtra Gram Panchayat Accounts Code, 2011 for adoption of the accounts formats recommended by the Comptroller and Auditor General of India. It was however, observed that the State Government has not yet amended MZP&PS Account Code, 1968. The Bombay Village Panchayat (Budget and Accounts) Rules, 1959 and The Maharashtra Gram Panchayat Accounts Code, 2011 due to which, accounts in the recommended formats were not being maintained in any of the ZPs.

The Department stated (December 2015) that necessary action to amend the Codes/Rules to maintain the accounts of PRIs in the formats recommended by the Comptroller and Auditor General of India at all the three levels was in progress.

### 1.8.6 Pending assessment of grants

According to State Government orders of May 2000, 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. The Administrative Departments 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 except for nine<sup>3</sup> ZPs which did not furnish any information to audit, there were arrears in assessment of grants in the remaining 25 of 34 ZPs in respect of 10 Departments as indicated in Table 6.

**Table 6: Position of arrears in assessment of grants**

Sr. No.	Name of Department	Period of arrears
1.	Education	1997-2015
2.	Agriculture	1998-2015
3.	Social Welfare	2000-2015
4.	Animal Husbandry	2003-2015
5.	Public Health	2000-2015
6.	Family Welfare	2007-2015
7.	Water Supply and Sanitation	2000-2015
8.	Women and Child Welfare	1998-2015
9.	Minor Irrigation	1998-2015
10.	Public Works	2007-2015

*Source: Information furnished by ZPs*

---

<sup>3</sup> Amravati, Beed, Bhandara, Nashik, Palghar, Sangli, Satara, Washim and Yawatmal

---

## **1.9 Thirteenth Finance Commission Grants**

The State Government released ₹ 5,594 crore to PRIs up to March 2015 as per recommendations of the 13<sup>th</sup> Finance Commission of which, ₹ 4,622 crore (83 *per cent*) had been spent as of October 2015.

## **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.

Except Palghar ZP, local fund audit of 33 ZPs was conducted up to 2013-14. However, annual accounts of only five<sup>4</sup> of 33 ZPs were certified (April 2016) by DLFA up to 2013-14. The consolidated Audit Review Report for the year 2012-13 was prepared by DLFA and presented to the State Legislature in July 2015 and the Audit Review Report for the year 2013-14 was under preparation.

### **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 (January 2016) audit that against 2,87,775 outstanding paragraphs, 45,350 paragraphs<sup>5</sup> were cleared up to November 2015.

### **1.10.4 Outstanding Paragraphs from DLFA Reports**

As per Annual Audit Review Report of DLFA for the year 2012-13, 31,218 paragraphs in respect of Government funds involving ₹ 1,26,529.72 crore and 1,28,298 paragraphs pertaining to ZPs own funds involving ₹ 12,354.37 crore were pending for settlement from 1962 to 2013.

<sup>4</sup> Akola, Jalgaon Kolhapur, Latur and Osmanabad

<sup>5</sup> Accountant General: 5,972; Local Fund Audit: 35,490 and Panchayati Raj Committee: 3,888

### 1.10.5 Follow-up on Audit Reports

According to instructions issued by the Finance Department, Government of Maharashtra in January 2001, Administrative Departments were required to furnish Explanatory Memoranda (EMs) duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs included in the Audit Reports, within three months of presenting the Audit Reports to the State Legislature. The Administrative Departments, however, did not comply with these instructions. The EMs in respect of two paragraphs/reviews figuring in Audit Report 2011-12 and 2013-14 have not yet been received as on 31 March 2016 as indicated in **Table 7**.

**Table 7: Status of submission of EMs in respect of Audit Reports**

Audit Report	Date of tabling the Report	Number of Paragraphs and Reviews	Number of EMs received	Balance
2011-12	19 December 2013	09	08	01
2013-14	31 July 2015	04	03	01
<b>Total</b>		<b>13</b>	<b>11</b>	<b>02</b>

Further, with a view to ensuring accountability of the Executive in respect of all issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) lays down in each case, the period within which Action Taken Notes (ATNs) on its recommendations should be sent by the Department.

The PAC discussed 22 paragraphs related to PRIs and made 27 recommendations (up to December 2015) on eight paragraphs pertaining to Audit Reports 2005-06, 2006-07 and 2007-08. However, ATNs in respect of all the 27 recommendations were pending as indicated in **Table 8**.

**Table 8: Position of outstanding ATNs**

Year of Audit Report	Report Number and year of PAC	Number of PAC recommendations	Number of ATNs awaited on PAC recommendations
2005-06	19 <sup>th</sup> Report of 2012-13	11	11
2006-07	4 <sup>th</sup> Report of 2015-16	06	06
2007-08	5 <sup>th</sup> Report of 2015-16	10	10
<b>Total</b>		<b>27</b>	<b>27</b>

### 1.11 Conclusion

The Account and Finances of Panchayati Raj Institutions (2014-15) in the State revealed that:

- allocations to Local Bodies were meagre at 18.75 *per cent* (Panchayati Raj Institutions: 14.70 *per cent* and Urban Local Bodies: 4.05 *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 14 functions were transferred to Panchayati Raj Institutions;

- there was a delay of more than three and two years in finalization and publication of annual accounts of 2011-12 and 2012-13 respectively. Further, the annual accounts of 2013-14 and 2014-15 were yet to be finalized.
- the Maharashtra Zilla Parishads and Panchayat Samitis Account Code, 1968; The Bombay Village Panchayat (Budget and Accounts) Rules, 1959; and The Maharashtra Gram Panchayat Accounts Code, 2011 have not been amended. As a result, accounts in the formats recommended by the Comptroller and Auditor General of India were not maintained in any of the Zilla Parishads;
- response to Inspection Reports and Paragraphs issued by the Principal Accountant General/Accountant General, Maharashtra was not adequate; and
- action taken notes in respect of 27 recommendations made by the Public Accounts Committee up to December 2015 were pending.