Part - A

Panchayat Raj Institutions

Chapter – 1

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayat Raj Institutions

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AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF PANCHAYAT RAJ INSTITUTIONS

An overview of the functioning of the Panchayat Raj Institutions in the State

1.1 Introduction

To promote greater autonomy at grassroot level and to involve people in identification and implementation of development programmes involving Gram Sabhas, the Constitution (73rd Amendment) Act, 1992 was promulgated. According to the provisions of Article 243G of the Constitution, the Legislature of a State may, by law, endow the panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for devolution of powers and responsibility upon panchayat at the appropriate level, subject to such conditions as may be specified therein with respect to:

(a) preparation of plans for economic development and social justice; and,

(b) implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule of the Constitution.

According to the provisions of Article 243H of the Constitution, the Legislature of a State may, by law:

(a) authorise a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;

(b) assign to a panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;

(c) provide for making such grants-in-aid to the panchayats from the Consolidated Fund of the State; and

(d) provide for the constitution of such funds for crediting all moneys received, respectively, by or on behalf of the panchayats and also for withdrawal of such money therefrom as may be specified in the law.

Consequently, the following three-tier system of Panchayat Raj Institutions (PRIs) has been established in the State by Madhya Pradesh *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993:

- Zila Panchayat (ZP) at district level
- Janpad Panchayat (JP) at block level and
- Gram Panchayat (GP) at village level.

There are 51 ZPs, 313 JPs and 22,823 GPs in the State as of March 2015.

The basic demographic information relating to the State of Madhya Pradesh vis-a-vis National average is given below:

Particulars	Unit	Madhya Pradesh	All India
Population	crore	7.26	121.02
Share in country's population	*per cent*	6	-
Rural population	crore	5.26	83.30
Share of rural population	*per cent*	72.37	68.84
Literacy rate	*per cent*	69.32	74.04
Sex ratio (females per thousand males)	ratio	931/1000	940/1000

(Source: Census data 2011)

1.2 Organisational set up of PRIs

As per Chapter 3 of Madhya Pradesh *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, all the PRIs are distinct legal authorities to discharge the functions devolved under the provisions of Acts and Rules, subject to monitoring powers vested in State authorities.

At State level, Panchayat and Rural Development Department is responsible for providing guidance to all the three tiers of PRIs for proper implementation of Panchayat Raj arrangements. The organisational set up of governance at State, district, block and village levels is given below:

Organisational Chart of Panchayat Raj Institutions

Additional Chief Secretary **(**Panchayat and Rural Development Department)

↓

Commissioner, Panchayat Raj Directorate (PRD)

↓

	ZPs →	JPs →	GPs
Administrative Officer	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)	Secretary
Elected Authority	President	President	Sarpanch

The details of standing committees of ZPs, JPs and GPs are as follows:

Standing Committees of Zila Panchayat and Janpad Panchayat

a. General Administration Committee

b. Agriculture Committee

c. Education Committee

d. Communication and Works Committee

e. Cooperation and Industries Committee

Standing Committees of Gram Panchayat

a. General Administration Committee

b. Construction and Development Committee

c. Education, health and social welfare Committee

1.3 Functioning of PRIs

According to 73rd Constitutional Amendment Act, 29 functions (enshrined in Eleventh schedule of the Constitution) were to be devolved to PRIs by the State Government (**Appendix-1.1**).

Panchayat and Rural Development Department (PRDD) informed (January 2016) that 29 functions had been devolved to PRIs, however, the Gazette Notification had not been published. It further informed that the funds and functionaries were yet to be transferred.

1.3.1 Zila Panchayats (ZPs) are the first tier of Panchayat at the district level. According to Section 52 of MP *Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993*, ZP is responsible to execute works, schemes and projects through GPs or through the executing agencies transferred by the State Government to Panchayats, irrespective of their source of fund.

ZPs are responsible to prepare annual plans for economic development and social justice of the district and to ensure the coordinated implementation of such plans. It shall ensure overall supervision, co-ordination and consolidation of the plans prepared by JPs and reallocate to JPs and GPs the funds made available by Central or State Government.

1.3.2 Janpad Panchayats (JPs) are the intermediate tier of PRIs at the Block level. JP controls and supervises the administration of the community development block or tribal development block within its jurisdiction. The functions and schemes assigned to such block by the State Government are implemented under the superintendence, directions and control of JP in accordance with the instructions issued by the State Government from time to time.

Further, under Section 50 of the MP *Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993*, JP is also responsible to consider and consolidate the annual plan in respect of economic development and social justice of all GPs and the JP and submit the consolidated plan to ZP.

1.3.3 Gram Panchayats (GPs), the last tier of PRIs at the grassroot level, are responsible to ensure execution of schemes, works, projects entrusted to them by any law and those assigned to them by Central or State Government or ZP or JP. According to Section 49-A of MP *Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993*, it shall be the duty of GPs to prepare annual plans for economic development and social justice of the Panchayat area and submission thereof to the JP for integration with the JP Plan.

1.4 Audit arrangement

The State Government has appointed (November 2001) Director, Local Fund Audit (DLFA) for audit of accounts of Panchayats and who shall work under the technical guidance and support (TGS) of the Comptroller and Auditor General (C&AG) of India. As per the standard terms and conditions of TGS, C&AG of India has the right to conduct such test check of the accounts and to comment on and supplement the report of the Statutory Auditor, as he may deem fit. Further, the C&AG of India or his representative has the right to report to State Legislature, the result of audit at his discretion.

Madhya Pradesh State Legislative Assembly has constituted (March 2015) Local Bodies and Panchayatiraj Accounts Committee (LBPAC) for examination of Appropriation Accounts of local bodies in the State. LBPAC is also responsible for examination of reports of C&AG laid on the table of the Legislative Assembly.

- **Technical Guidance and Support provided by Indian Audit and Accounts Department**

Section 152 of Regulations on Audit and Accounts, 2007 envisages the following arrangements regarding technical guidance and support to PRIs:

- Local Fund Auditor would prepare an annual audit plan for audit of PRIs and forward it to the Accountant General (Audit) of the State.
- The audit methodology and procedure for audit of PRIs by the Local Fund Auditor would be as per various Acts and Statutes enacted by the State and guidelines prescribed by the C&AG.
- Copies of inspection reports in respect of selected local bodies shall be forwarded by the Local Fund Auditor to the Accountant General (Audit) for advice on system improvements.

The Annual Audit Plan for 2013-14 was prepared by DLFA, which was forwarded to the Accountant General (Audit). DLFA followed the methodology and procedure as suggested by the AG (General and Social Sectors Audit), Madhya Pradesh from time to time. Inspection reports were forwarded to the AG (G&SSA) Madhya Pradesh for vetting.

- **Audit Report on Local Bodies**

Para 10.121 of the recommendations of Thirteenth Finance Commission envisages that Annual Technical Inspection Report of C&AG as well as the Annual Report of DLFA should be placed before the State Legislature. Accordingly, Section 129 of the *MP Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 was amended in July 2011, which lays down that the Annual Audit report of DLFA on Panchayats along with the Annual Technical Inspection Report of the C&AG of India shall be submitted to the Governor, who shall cause the reports to be laid on the table of the Legislative Assembly.

Annual Technical Inspection Report (ATIR) for the year 2013-14 was forwarded to State Government in May 2015. The status of laying ATIR on the table of the Legislative Assembly was awaited (December 2015), despite reminders (July 2015 and December 2015). State Government informed (July 2015) that the audit report of DLFA was awaited.

1.5 Response to audit observations

For providing technical guidance and support under TGS arrangement, Inspection Reports (IRs) of Accountant General (G&SSA), Madhya Pradesh were sent to DLFA. As per TGS arrangements, DLFA was to follow up compliance with the audit paragraphs of IRs. However, 23,855 paragraphs in 4,448 IRs, including 3,148 paragraphs in 425 IRs issued during 2014-15, were pending for settlement as of March 2015, as detailed in **Table 1.1**:

Table-1.1: Status of outstanding IRs and Paragraphs as of March 2015

Sl. No.	Year	Opening balance and addition during the year				Settled during the year		Closing Balance	
		OB IRs	Addition IRs	OB Paras	Addition Paras	No of IRs	No of Paras	No of IRs	No of Paras
1	Up to 2010-11	2,234	--	11,607	--	5	159	2,229	11,448
2	2011-12	2,229	798	11,448	4,198	6	357	3,021	15,289
3	2012-13	3,021	573	15,289	3,290	0	126	3,594	18,453
4	2013-14	3,594	500	18,453	3,516	0	74	4,094	21,895
5	2014-15	4,094	425	21,895	3,148	71	1,188	4,448	23,855

(Source: Monthly Arrear Reports complied by AG (G&SSA), Madhya Pradesh)

Financial reporting issues

1.6 Sources of funds

There are mainly two sources of fund for the PRIs i.e. Government grants and own tax revenues. The Government grants include:

- grant assigned under the Thirteenth Finance Commission of India; and
- devolution of four *per cent* of divisible tax revenue of previous year of the State Government as per the recommendations of Third State Finance Commission.

The Third State Finance Commission (SFC) recommended (accepted by State Government in February 2010) that four *per cent* of divisible fund[1] of the State Government should be devolved to PRIs. During the year 2014-15, the devolution of SFC grants by the Finance Department to PRIs is shown in the **Table 1.2** below:

Table - 1.2: Devolution of funds to PRIs

(₹ in crore)

Year	Divisible funds of State Government	Funds were to be devolved	Funds actually devolved	Short devolved
2014-15	25,678.61	1,027.14	591.47	435.67

(Source: Information provided by Finance Department and PRD)

It can be seen from **Table 1.2** that Finance Department short devolved funds to the tune of ₹ 435.67 crore to PRIs during 2014-15. Reason for short release of funds to PRIs was not intimated (December 2015) by the Finance Department.

1.7 Budgetary allocation and expenditure of PRIs

Funds (share of tax revenue of the State and grants for implementation of schemes) allocated to PRIs by the State Government through State Budget during last five years were shown in the **Table 1.3**:

[1] Divisible Fund: Total tax revenue of previous year minus ten *per cent* of expenditure for collection of taxes and deduction of assigned revenue to PRIs and ULBs.

Table – 1.3: Statement showing receipt and expenditure of PRIs

(₹ in crore)

	Grants in aid			**Actual expenditure**			**Unspent funds (4-7)**	**Percentage of unspent fund**
Year	**Revenue**	**Capital**	**Total**	**Revenue**	**Capital**	**Total**		
2010-11	6,585.74	231.40	6,817.14	5,678.75	198.65	5,877.40	939.74	14
2011-12	7,670.04	241.08	7,911.12	6,697.87	365.29	7,063.16	847.96	11
2012-13	8,948.74	345.78	9,294.52	8,385.85	345.30	8,731.15	563.37	6
2013-14	10,752.72	213.70	10,966.42	9,151.26	91.10	9,242.36	1,724.06	16
2014-15	18,871.32	76.60	18,947.92	13,209.32	12.66	13,221.98	5,725.94	30
Total	**52,828.56**	**1,108.56**	**53,937.12**	**43,123.05**	**1,013.00**	**44,136.05**	**9,801.07**	

(Source: Appropriation Accounts Grant No. 15, 52, 62 and 74)

As evident from **Table 1.3**, the grant allocation increased by 178 *per cent* for PRIs during the year 2014-15 as compared to the year 2010-11. However, PRIs could not spend the entire grant allocation and savings ranged from six to 30 *per cent* during the period 2010-15 mainly due to considerable unspent balances in the Revenue Head.

1.8 Accounting arrangement

1.8.1 Maintenance of Accounts in formats prescribed by the C&AG

Comptroller and Auditor General (C&AG) of India and Ministry of Panchayat Raj (GoI) developed an accounting framework and codification pattern consistent with the Model Panchayat Accounting System (MPAS), which was to be introduced from 1 April 2010. Government of Madhya Pradesh (GoMP) adopted MPAS (Receipt and payment accounts, Consolidation abstract register, Reconciliation statement, Statement of receivable and payable, Register of movable property, Register of immovable property, Inventory register, Demand and collection register etc.) with effect from August 2010.

We audited 356 PRIs (**Appendix 1.2**) during the year 2014-15. None of the test-checked PRIs (35 ZPs, 92 JPs, and 229 GPs) was maintaining the accounts in MPAS formats. However, their accounts were maintained as per existing Accounting Rule of *MP Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993.

On this being pointed out (September 2015), PRD stated that concurrent online accounting system (Panchayat Darpan) was initiated for adopting MPAS in PRIs.

The fact remains that none of the test-checked PRIs was maintaining the accounts in MPAS formats.

1.8.2 Annual Budget of PRIs

As per provisions of Section 73 of MP *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993, every Panchayat shall prepare Annual Budget. The time schedule for presentation of budget was also prescribed.

We observed that out of 356 test-checked PRIs, only 18 PRIs[2] prepared their budget as per the provisions of MP *Panchayat Raj Avam Gram Swaraj*

[2] ZPs - Dewas, Gwalior, Hoshangabad, Indore, Jhabua, Khargone, Khandwa, Mandsaur, Seoni and Shahdol; JPs - Alot, Ashta, Badi, Chitrangi, Khachrod, Lanji, Sidhi and Vijayraghogarh.

Adhiniyam, 1993. Further, 129 PRIs (ZPs 5, JPs 25 and GPs 99) did not prepare Annual Budget and 185 PRIs (ZPs 18, JPs 4 and GPs 126) did not produce relevant records/information. The remaining 24 PRIs (ZPs 2, JPs 18 and GPs 4), though intimated preparation of the budget, but did not produce the same to Audit as shown in **Table 1.4**:

Table – 1.4: Status of preparation of Annual Budget

PRI	No. of test checked PRIs	Scheduled time for budget approval by respective PRIs	No. of PRIs , which didn't prepare budget	No. of PRIs, which prepared budgets with delays
ZP	35	20 January	05	10 (10 to 540 days)
JP	92	30 January	25	07 (28 to 333 days)
GP	229	21 February	99	--

(Source: Information compiled from test-checked PRIs)

It is evident from above that the rules for preparation of Annual Budget were not adhered to by the PRIs.

1.9 Non-preparation of bank reconciliation statement

Madhya Pradesh Panchayat Accounting Rules prescribe for reconciliation of any difference between the balances of cash book and bank accounts on monthly basis.

During test check of records 356 PRIs, we found that 44 PRIs did not prepare bank reconciliation. There were unreconciled differences in the closing balances of cash books and bank books of these 44 PRIs as of March 2014, as detailed in **Appendix-1.3.** Further, 106 PRIs[3] did not produce relevant information/records. Non-reconciliation of differences was fraught with the risk of misuse of funds.

The CEOs of respective ZPs/JPs and Secretary of respective GPs stated (2014-15) that the bank reconciliation of difference between the balances of cash book and bank accounts would be carried out.

1.10 Non-adjustment of temporary advances

Rule 52 of the MP Zila Panchayat (Accounts) Rules, 1999 and Rule 49 of MP Janpad Panchayat (Accounts) Rules, 1999 stipulate that it would be the responsibility of the person who took advance, to submit the details of expenditure immediately after the completion of purpose for which the advance was taken failing which entire amount of advance would be deducted from the next salary or other sums payable to him.

During test check of records of 356 PRIs, we found that temporary advances of ₹ 4.02 crore provided by 49 PRIs to individuals and agencies since 1990-91, remained outstanding as on 31 March 2014. Details are given in **Appendix-1.4**. In 50 PRIs, (ZPs 06 JPs 17 and GPs 27) no temporary advance was outstanding, whereas remaining 257 PRIs did not produce records/ information to Audit.

The CEOs and Secretary (GPs) of the concerned PRIs stated (2014-15) that the recovery of advances would be made.

[3] ZPs-12 JPs-25 and GPs-69

1.11 Release and utilisation of Thirteenth Finance Commission grants

Thirteenth Finance Commission (ThFC) grants-in-aid were released to the State mainly in two forms, viz., General Basic Grant and Special Area Basic grant. In addition, the performance related grants (General Performance Grant and Special Area Performance grant) were also released to the State from 2011-12 on fulfillment of conditions imposed for its release. As per ThFC recommendations, allocations among various Panchayat Raj Institutions (PRIs) within the State were to be made by the respective States. The position of grants released to Madhya Pradesh and thereafter transfer of the same to PRIs are as shown in **Table 1.5**:

Table-1.5: Entitlement and release of ThFC grant during 2010-11 to 2014-15

(₹ in crore)

Types of grant under ThFC	Entitlement of State for PRIs	Grant released by GoI	Short(-)/ excess(+) release by GoI	Grant released to PRIs by State Government
General Basic Grant (GBG)	2,689.89	2,352.50	(-) 337.39	2,355.15
General Performance Grant (GPG)	1,424.15	1,403.55	(-) 20.60	1,403.55
Special Area Basic Grant (SABG)	112.79	119.25	(+) 6.46	98.87
Special Area Performance Grant (SAPG)	79.00	78.58	(-) 0.42	66.89
Total	**4,305.83**	**3,953.88**	**(-) 351.95**	**3,924.46**

(Source: Finance Department and PRD)

It is evident from above that Government of India (GoI) released ₹ 3,953.88 crore of ThFC grants for PRIs against the entitlement of ₹ 4,305.83 crore of the State during 2010-15. Thus, there was short release of ₹ 351.95 crore ThFC grants to State.

1.11.1 Fulfillment of conditions by State Government under ThFC

The State was eligible to draw its allocation of General Performance Grant (GPG), if it complies with certain conditions prescribed in para 10.161 of ThFC guidelines. The status of compliance of the conditions by the State is as under:

Conditions	Action taken by the State Government
Panchayats, having elected body were eligible to receive GPG.	Election for Panchayat was held in 2015.
Release of grants will be subject to submission of utilisation certificate (UCs) for previous installment drawn.	UCs were submitted by PRDD on time, in prescribed format on the basis of ThFC grants released to PRIs.
Adoption of an accounting system for maintenance of accounts by PRIs consistent with the Model Panchayat Accounting System (MPAS) for all Panchayats.	The State Government agreed to adopt Model Panchayat Accounting System (MPAS) in August 2010. But all test checked ZPs/JPs/GPs did not maintain their accounts in accordance

Conditions	Action taken by the State Government
	with the MPAS.
To put in place an audit system for all tiers of PRIs. The Annual Technical Inspection Report of the C&AG as well as the Annual Report of the Director of Local Fund Audit must be placed before the State legislature.	According to the MP *Panchayat Raj Avam Gram Swaraj Adhiniyam* 1993, amended in July 2011, the Annual Audit report of DLFA on Panchayats along with the ATIR of the C&AG of India shall be submitted to the Governor, for laying in Legislative Assembly, but ATIR of 2013-14 was not placed before State Legislature (December 2015).
To put in place a system of independent local body ombudsmen who will look into complaints of corruption and mal-administration against the functionaries of local bodies.	The M.P. *Lokayukt Avam Up-Lokayukt Adhiniyam*, 1981 was in force and all functionaries of Local Bodies are covered under the Jurisdiction of this act.
To put in place a system of transfer of funds through e-banking in all tiers of PRIs.	All ThFC grants were transferred through e-banking by PRDD.
To constitute State Finance Commission (SFC) as per Article 243 I (2) of the Constitution.	Already constituted and currently Third SFC was functioning.
All local bodies must be fully enabled to levy property tax for all types of residential and commercial properties and any hindrance in this regard must be removed.	Section 77 of *MP Panchayat Raj Avam Gram Swaraj Adhiniyam* 1993 vested power to GPs to levy property tax. Out of 22,823 GPs in State only 1,036 GPs (4.54 *per cent*) levied and collected taxes (July 2015).

1.11.2 Short release of interest amounting to ₹ 15.04 crore on account of delays in release of ThFC grant to PRIs

As per para 4.2 of ThFC guidelines, ThFC grants were to be transferred to PRIs within ten days of receipt from the Central Government. In case of any delay, the State Government would release the grant with interest, at the bank rate of RBI, this would be applicable from the second installment of 2010-11 onwards.

We observed that ThFC grants were not transferred to PRIs within the time limit envisaged in guidelines. Finance Department (FD) of State sanctioned ₹ 11.58 crore[4] as interest for delay in release of ThFC grant to PRIs. We noticed that out of ₹ 11.58 crore sanctioned towards payment of interest, ₹ 5.30 crore had accrued as interest on the ThFC grants lying in the bank account of PRD. Thus, State Government had to incur ₹ 6.28 crore as extra financial burden on account of delays in releasing ThFC grants.

4 ₹ 0.36 crore on dated 13.07.13 and ₹ 11.22 crore on dated 14.07.14

We further observed that ThFC grants of ₹ 1,015.61 crore were released to PRIs during 2010-15 with the delay ranging between one month to 288 days (**Appendix-1.5).** Keeping in view the interest rate of nine *per cent* adopted by FD for payment of interest on delayed release of ThFC grants, interest payable to PRIs worked out to ₹ 26.62 crore. Thus, there was short release of ₹ 15.04 crore[5] towards interest payable to PRIs for delayed release of ThFC grant.

On this being pointed out (July 2015), Commissioner PRD stated that the interest amount received from FD was released to GPs.

The reply was not acceptable, as interest released to PRIs for delays in ThFC grants was not in accordance with the norms of ThFC guidelines.

1.11.3 Diversion of General Performance Grant

As per Rule 212(1) of General Financial Rules, a certificate regarding utilisation of grant for the purpose, for which it was sanctioned, is to be given by the institution who has received the grant-in-aid (GIA). For execution of works under ThFC, PRDD issued (August 2010) a work plan, which envisaged the priorities of works, namely, arrangement of e-governance at GPs level, infrastructure development and maintenance of assets at GPs level, arrangement of drinking water and water supply projects and enhancement of basic facilities at GPs offices.

During scrutiny of records of PRD, we observed that first installment of General Basic Grant (GBG) ₹ 321.44 crore and General Performance Grant (GPG) ₹ 214.85 crore were released (August 2013 and March 2014 respectively) to State. Out of these grants, GPG of ₹ 36.07 crore[6] was released by PRDD to Director State Institute of Rural Development (SIRD), Jabalpur for organising training under Backward Region Grant Fund (BRGF) scheme. We, further, observed that ZP Narsinhpur (August 2015) incurred GPG of ₹ 0.62 crore on payment of salary of District Rural Development Authority (DRDA) employees.

The work plan issued by PRDD did not provide for incurring expenditure from ThFC grants towards training as well as payment of salary to DRDA employees. Thus, ThFC grants of ₹ 36.69 crore was diverted for the purpose other than for which it was sanctioned.

On this being pointed out, Commissioner PRD stated (July 2015) that ThFC grant was released to SIRD due to non availability of fund under BRGF scheme whereas, CEOs ZP Narsinhpur did not furnish reply as of December 2015.

The reply was not acceptable, as ThFC grant was diverted for the purpose other than for it was sanctioned and further it remained unadjusted.

[5] Difference between interest paid (₹ 11.58 crore) and interest actually due to be paid (₹ 26.62 crore)

[6] Ch.No.588623 dt.18.03.14 (₹ 16.07 crore) and Ch.No.689382 dt.9.6.14 (₹ 20 crore).