

PART - A
PANCHAYAT RAJ
INSTITUTIONS

CHAPTER I

**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

The 73rd amendment to Constitution accorded constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, election, regular flow of funds through the Finance Commission, etc. As a follow-up, the State Governments were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of local self-government.

Consequent upon the 73rd amendment of the Constitution, the State Legislature enacted the Tamil Nadu Panchayats Act, 1994. Under this Act, a three-tier system of PRIs *viz.*, Village Panchayats (VPs) at the village level, Panchayat Unions or Block Panchayats (BPs) at the intermediary level and District Panchayats (DPs) at the district level were established.

The demographic and developmental status of the State is given in **Table 1.1** below:

Table 1.1: Important statistics of the State

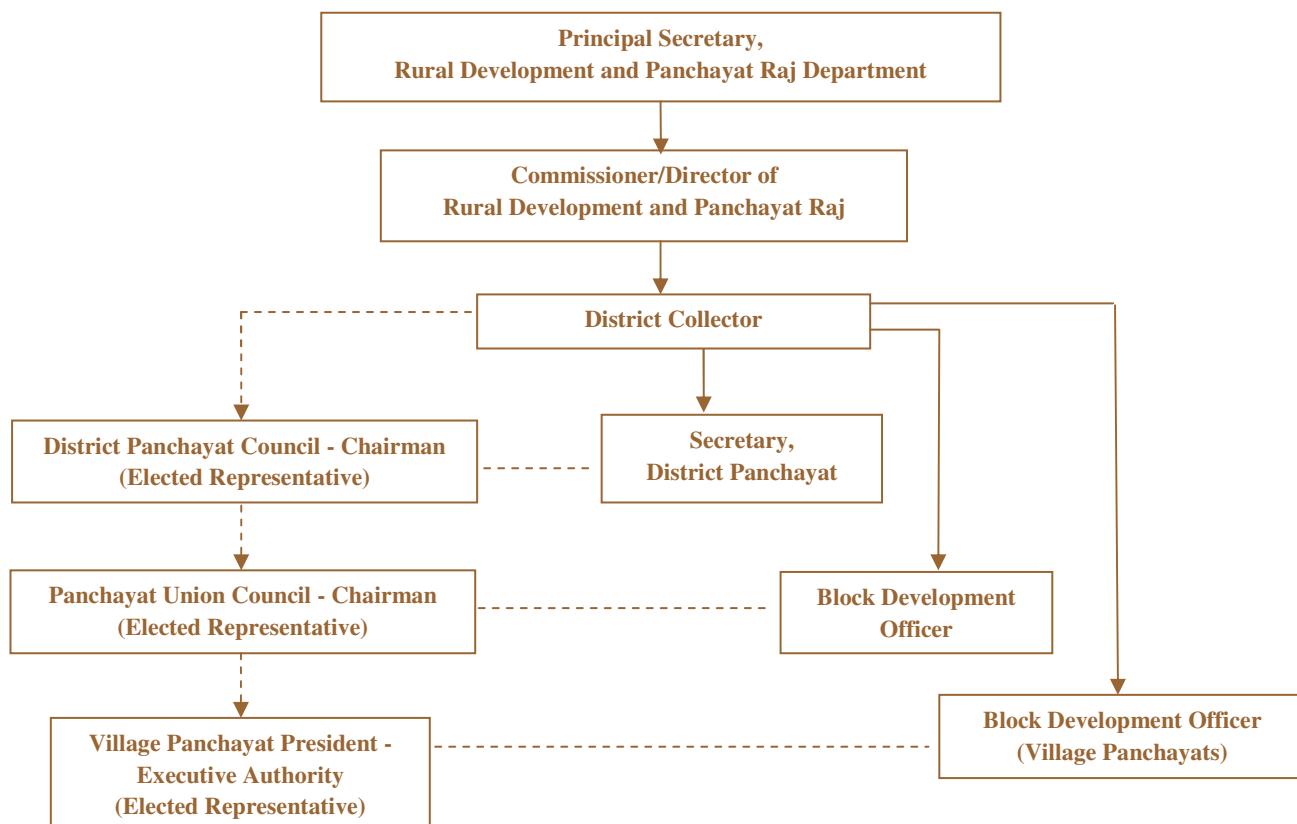
| | |
|-----------------------|-----------------------------|
| Population | 7.21 crore |
| Population density | 555 persons per Sq.Km. |
| Gender ratio | 996 females per 1,000 males |
| Rural population | 51.60 <i>per cent</i> |
| Literacy | 80.09 <i>per cent</i> |
| Number of PRIs | 12,940 |
| - District Panchayats | 31 |
| - Block Panchayats | 385 |
| - Village Panchayats | 12,524 |

(Source: Census of India 2011 and Policy Note of the Rural Development and Panchayat Raj Department for 2015-16)

Abbreviations used in this report are listed in the Glossary at Page 92

1.2 Organisational setup of PRIs

An organogram of PRIs as of March 2016 is given below:



1.3 Functioning of PRIs

Eleventh Schedule of the Constitution of India empowered the State Legislatures to devolve 29 functions to PRIs. Government of Tamil Nadu (GoTN) delegated certain powers to the three tiers of Panchayats to supervise, assist and monitor the works, falling under the 29 subjects implemented by various departments, as envisaged in the Constitution (Seventy-third Amendment) Act, 1992.

1.4 Formation of various Committees

(i) As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994, out of 32 districts in Tamil Nadu, GoTN constituted a District Planning Committee (DPC) in each of the 31 districts (except Chennai District) in Tamil Nadu. District Panchayat Chairperson is the Chairperson and the District Collector is the Vice Chairperson of the DPC. Members of Parliament, Members of Legislative Assembly and representatives of Local Bodies are permanent special invitees of the Committee.

Functions of the DPC are, collection, compilation and updation of information on the natural resources of the district to create database for decentralised planning. It consolidates the plans prepared by Rural Local Bodies and Urban Local Bodies for preparation of consolidated district plan, which

facilitates the State Planning Commission in preparation of State Plan. The Committee also advises the State Government with regard to the implementation of State Schemes.

(ii) Section 3 of the Tamil Nadu Panchayats Act, 1994 stipulates that there shall be a Grama Sabha for every Village Panchayat consisting of persons registered in the electoral roll relating to the Panchayat Village, comprised within the area of the said Village Panchayat. Guidelines and procedures for the conduct of Grama Sabha are prescribed in The Tamil Nadu Grama Sabha (Procedure for convening and conducting of Meeting) Rules, 1998. The Government order ensures conduct of Grama Sabha meetings for a minimum of four times a year i.e., on 26th January, 1st May, 15th August and 2nd October.

1.5 Audit arrangement

1.5.1 Primary Auditor

Director of Local Fund Audit (DLFA) is the statutory Auditor for BPs and DPs. The DLFA is conducting only test audit of VPs' accounts. The DLFA has to take up audit of 20 *per cent* of VPs and 2 *per cent* of the VPs selected by the Director of Rural Development and Panchayat Raj (DRDPR) every year. Deputy Block Development Officer (DBDO) audits the accounts of the VPs and certifies them.

Placing of Audit Report of DLFA

As per Section 20 of the Tamil Nadu Local Fund Audit Act, 2014, DLFA should submit annually a consolidated report of the accounts of local bodies audited by him to Government, which should cause it to be laid before the Legislative Assembly. As per Rule 19 of the Tamil Nadu Local Fund Audit Rules, 2016, the DLFA should, not later than 30th September of every year, send to the Government, a consolidated report of the accounts of local authorities audited by him during the previous financial year, containing such particulars which he intends to bring to the notice of the Government as per Section 20 of the Act. However, the report for the year 2015-16 was yet to be submitted to Government by DLFA, as the audit was not completed. The DLFA stated (November 2016) that the Audit Report for the year 2015-16 would be placed before the Legislative Assembly in September 2017.

Arrears in Audit by DLFA

(a) Audit of DPs and BPs by DLFA was completed upto 2014-15. Position of arrears in audit of DPs and BPs by DLFA for 2015-16, as of September 2016, is given in **Table 1.2**.

Table 1.2: Position of audit of DPs and BPs by DLFA

| Category of PRI | Year | Total number | Accounts submitted | Audit completed | Pendency | |
|-----------------|---------|--------------|--------------------|-----------------|---------------------------|------------------------|
| | | | | | In submission of Accounts | In completion of Audit |
| DPs | 2015-16 | 31 | 5 | 5 | 26 | Nil |
| BPs | 2015-16 | 385 | 249 | 13 | 136 | 236 |

(Source: Details furnished by DLFA)

It may be observed from **Table 1.2** that there was huge pendency in submission of accounts by DPs and BPs and audit by DLFA in respect of BPs for the year 2015-16.

(b) The DLFA had completed audit of 2,802 out of 12,524 VPs for the year 2014-15 which was more than the mandatory limit of 22 *per cent* prescribed. However, out of 2,803 VPs to be audited by DLFA for the year 2015-16, audit of only 30 VPs was completed as of September 2016. DLFA stated (November 2016) that diversion of staff for General Assembly Election 2016 and vacancies in various cadres were the reasons for pendency in audit.

(c) As of October 2016, 45,918 and 401 paragraphs of DLFA's Inspection Reports relating to period upto 2015-16 in respect of BPs and DPs respectively were pending settlement as given in **Table 1.3**.

Table 1.3: Year-wise pendency of paragraphs of DLFA

| Year of IR | Number of paragraphs pending in respect of | |
|--------------|--|------------|
| | BPs | DPs |
| Upto 2011-12 | 14,662 | 81 |
| 2012-13 | 5,970 | 82 |
| 2013-14 | 7,420 | 52 |
| 2014-15 | 17,642 | 107 |
| 2015-16 | 224 | 79 |
| Total | 45,918 | 401 |

(Source: Details furnished by DLFA)

Audit analysis of the data revealed that in respect of BPs, 20,632 (45 *per cent*) out of 45,918 pending paragraphs and in respect of DPs, 163 (41 *per cent*) out of 401 pending paragraphs related to period prior to 2013-14. This indicated that adequate attention was not given to settle the long pending paragraphs.

The DLFA reported (October 2016) that 61 District High Level Committee meetings were held during 2015-16 and 2,445 paragraphs related to BPs were settled.

1.5.2 Audit by Comptroller and Auditor General of India (CAG)

Audit of PRIs is conducted under Section 20 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to PRIs. Technical Guidance and Support (TGS) is provided by the CAG to DLFA.

Audit Reports of CAG

CAG's Audit Reports on PRIs for the years 2000-01, 2005-06 and 2006-07 were discussed and 46 recommendations were made by the Public Accounts Committee (PAC). As of October 2016, Action Taken Reports were pending from Rural Development and Panchayat Raj Department on 152 recommendations¹ relating to 1992-93 to 2008-09 for final settlement, which *inter-alia* consisted of paragraphs relating to PRIs included in the Audit Reports (Civil), (State Finances) and (Local Bodies).

1.6 Response to audit observations

Important irregularities detected by Audit during test-check of records of DPs and BPs are followed-up through Inspection Reports issued to the concerned DPs and BPs and DRDPR. As of October 2016, 1,326 paragraphs contained in 324 Inspection Reports issued upto 2015-16 were pending settlement for want of satisfactory replies.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

1.7 Ombudsman

As per Paragraph No.10.161(iii) of the recommendations of the Thirteenth Central Finance Commission (TCFC), the State Government must put in place a system of independent local body Ombudsman who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials and recommend suitable action against them. The Tamil Nadu Local Bodies Ombudsman Act, 2014, enacted by the State Legislature in December 2014, did not cover PRIs. However, 96 complaints received by the Ombudsman in respect of PRIs (VPs and BPs) during 2015-16 were forwarded to the concerned District Collectors for further necessary action.

¹ 1992-93(2), 1993-94(10), 1995-96(1), 1997-98(5), 1998-99(22), 1999-2000(17), 2000-2001(13), 2001-02(19), 2003-04(8), 2004-05(2), 2005-06(15), 2006-07(28), 2007-08(4) and 2008-09(SF)(6)

1.8 Social Audit

As per Section 15(5)(d) of the National Rural Employment Guarantee Act, 2005, Social Audit of all works in the jurisdiction of VP is to be carried out by the Grama Sabha and prompt action has to be taken on the objections raised during Social Audit. GoTN established (January 2013) an independent organisation viz. Social Audit Society of Tamil Nadu (SASTA), which was registered as a Society. During the year 2015-16, SASTA had conducted audit of 4,463 VPs out of 5,337 VPs planned for Social Audit and audit of 874 VPs was yet to be completed. The Director, SASTA stated (September 2016) that natural calamities and proclamation of model code of conduct by the Election Commission for General Assembly Election 2016 were the reasons for pendency in audit.

1.9 Submission of Utilisation Certificates

The Utilisation Certificates (UCs) for the Central Finance Commission (CFC) grants were required to be sent to Government of India (GoI). The DRDPR stated (November 2016) that UCs for CFC grants for the year 2015-16 were sent to GoI on 7 January 2016 (first instalment) and 28 April 2016 (second instalment) immediately after the actual utilisation of the grants at panchayat level.

1.10 Internal Audit and Internal Control System of PRIs

The VPs had to send a monthly report on the expenditure to the Block Development Officer (VPOs). The DRDPR stated (November 2016) that the monthly reports were being received at Block and District level. Moreover, all the expenditure made in VPs was placed before the Grama Sabha. The DLFA had also conducted concurrent audit of accounts of Panchayat Unions.

1.11 Financial Reporting Issues

1.11.1 Source of funds

The source of receipts for VPs and BPs are non-tax revenue, assigned revenue from State Government and grants given by State Government, grants given by GoI for various purposes and State and Central Finance Commissions grants. In addition, VPs have been empowered to levy taxes like property tax, profession tax and advertisement tax. State Finance Commission (SFC) grants, CFC grants, grants given by State Government and GoI and assigned revenue were released by the DRDPR to the District Collectors.

Table 1.4 shows the details of receipts and expenditure of the PRIs for the period from 2011-12 to 2015-16.

Table 1.4: Details of receipts and expenditure of PRIs

(₹ in crore)

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--|--------------|--------------|--------------|--------------|--------------|
| Own revenue | 528 | 631 | 766 | 422 | 929 |
| Assigned revenue | 564 | 705 | 975 | 866 | 713 |
| Grants | 3,685 | 4,484 | 4,375 | 4,358 | 4,758 |
| Total receipts | 4,777 | 5,820 | 6,116 | 5,646 | 6,400 |
| Revenue expenditure | 623 | 1,294 | 1,025 | 3,154 | 1,711 |
| Capital expenditure | 940 | 1,308 | 1,813 | 2,385 | 1,985 |
| Total expenditure | 1,563 | 2,602 | 2,838 | 5,539 | 3,696 |
| Percentage of capital expenditure to the total expenditure | 60 | 50 | 64 | 43 | 54 |

(Source: Details furnished by DRDPR)

1.11.2 State Finance Commission Grant

Fourth SFC, constituted in December 2009, recommended (September 2011) a vertical sharing ratio of 56:44 between rural and urban local bodies. GoTN accepted (June 2013) the recommendations with modifications to adopt the vertical sharing ratio between rural and urban local bodies at 58:42 and the horizontal sharing ratio of SFC devolution funds at 60:32:8 among VPs, BPs and DPs respectively. The SFC grants released to the PRIs during 2015-16 were ₹ 3,811 crore.

1.11.3 Central Finance Commission Grant

The Fourteenth Finance Commission released ₹ 947.65 crore towards Basic Grant² for 2015-16. In addition, Tamil Nadu is eligible for drawal of General Performance Grant³ only from 2016-17, as recommended by the Fourteenth Finance Commission.

1.11.4 Non-adjustment of Pending Advances

As per Article 99 of Tamil Nadu Financial Code Volume-I, any advance should be adjusted within three months from the date of its payment.

During the local audit in BP, Pallipalayam in Namakkal District, it was noticed that advances amounting to ₹ 2 crore paid during 1979 to 2016 were pending adjustment. In respect of BP, Kodumudi in Erode District advances amounting to ₹ 6.62 lakh paid during 2004 to 2014 were pending adjustment. The Block Development Officers stated (March and May 2016) that action would be taken to adjust the long pending advances.

² The purpose of basic grant was to provide a measure of unconditional support to PRIs for delivering the basic functions assigned to them

³ To be eligible for performance grants, the VPs have to submit audited annual accounts within the time schedule prescribed and should also show increase in revenue over the preceding year

1.11.5 Maintenance of accounts by PRIs

A new simplified accounting framework, namely the “Model Accounting System (MAS) for Panchayats” was developed in 2009 to bring about transparency and accountability in the maintenance of accounts of PRIs. Panchayat Raj Institutions Accounting Software (PRIA Soft) was developed by National Informatics Centre (NIC) in consultation with Ministry of Panchayati Raj (MoPR), GoI to establish centralised accounting software for use by all the three tiers of PRIs.

The DRDPR stated (November 2016) that all the DPs, BPs and VPs had completed online entries of accounts using PRIA Soft application up to 2015-16.