

PART–A

CHAPTER–I

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

An overview of the Functioning of the Panchayati Raj Institutions (PRIs) in the State

1.1 Introduction

The Seventy-third Constitutional Amendment enacted in 1992 envisaged constitutional status to *Panchayati Raj* Institutions (PRIs) and established a system of uniform structure, regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable these institutions function as institutions of self-government. In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

Consequently, the State Government enacted the Jharkhand *Panchayat Raj* (JPR) Act, 2001 to establish a three-tier¹ PRI system in the State and framed Jharkhand *Panchayat Raj* (Budget and Accounts) Rules, 2010, to ensure smooth functioning of PRIs.

There are 4689 units of PRIs in Jharkhand which includes 24 *Zila Parishads* (ZPs), 263 *Panchayat Samitis* (PSs) and 4402 *Gram Panchayats* (GPs).

As per Census 2011, the population growth in Jharkhand in the last decade was 22.4 *per cent* against the national average of 17.7 *per cent*. The percentage of urban and rural population was 24 and 76 respectively of the total population of the state. Decadal growth rates for rural and urban population were 19.6 and 32.4 *per cent* respectively. The comparative demographic and developmental picture of the State is given in **Table-1.1**.

Table-1.1: Important statistics of the State

Particulars	State	Rural
Population size	32988134	25055073
Population size (Male)	16930315	12776486
Population (Female)	16057819	12278587
Sex Ratio	949	961
Literacy Rate (7+ years) (<i>per cent</i>)	66.4	61.1
Literacy Rate (Female) (7+ years) (<i>per cent</i>)	55.4	48.9

(Source: Census 2011)

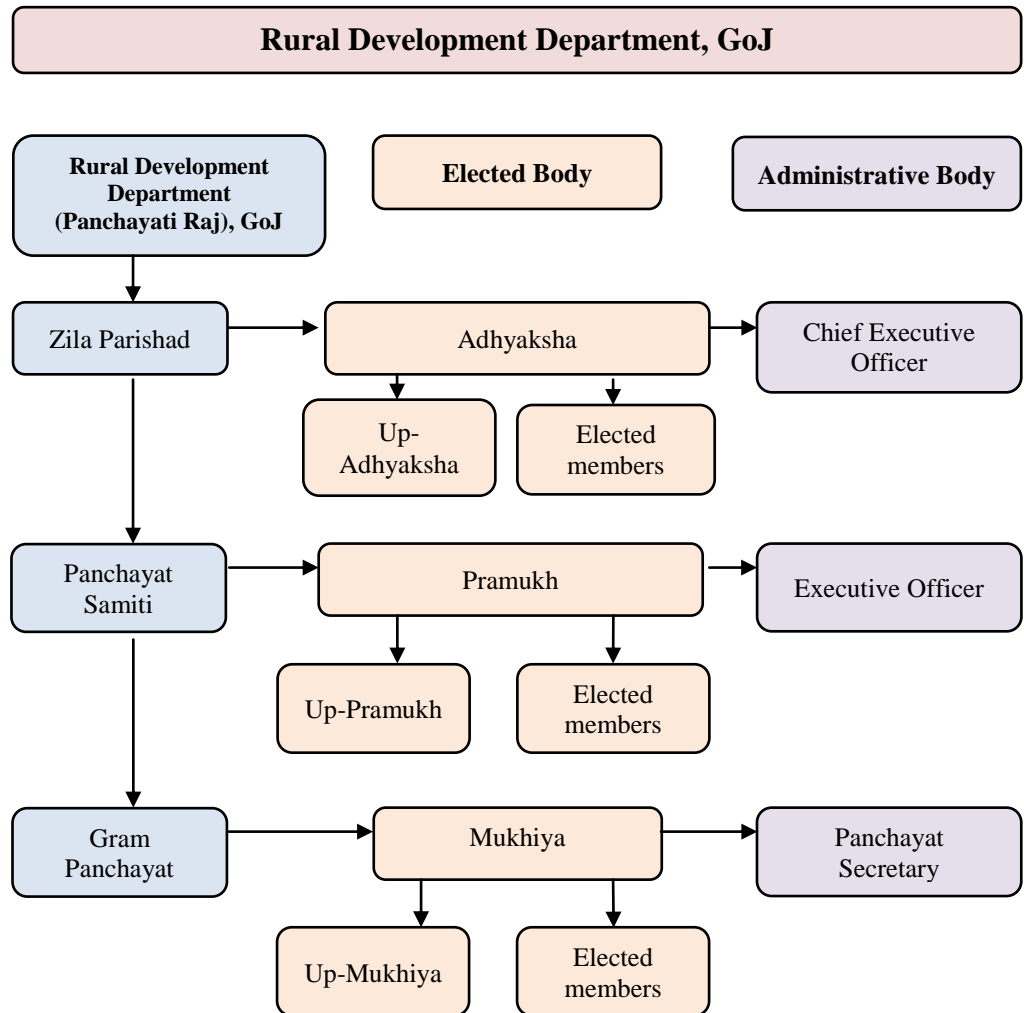
¹ *Zila Parishad* at district level, *Panchayat Samiti* at intermediate level and *Gram Panchayat* at village level

1.2 Organisational setup of PRIs

The PRIs are under the administrative control of the Rural Development Department (RDD) *Panchayati Raj* (PR), Government of Jharkhand (GoJ) headed by Secretary. The Deputy Development Commissioner cum Chief Executive Officer (CEO) and the Block Development Officer cum Executive Officer (EO) are the executive heads of the ZP and the PS respectively. The *Panchayat* Secretary is in-charge of the office of the GP. The second elections of the PRIs were held in December 2015.

The JPR Act, 2001 and Rules/byelaws made thereunder provide for elected body also in addition to the Executive/Administrative body to deliver the mandate and manage administration of PRIs. Under the set-up of elected body, ZP is headed by *Adhyaksha*, PS by *Pramukh* and GP by *Mukhia*. The organisational structure of PRIs is depicted in **Chart-1.1** below:

Chart-1.1: Organisational Structure



1.3 Functioning of PRIs

1.3.1 Power and Functions of PRIs

Article 243G and 243H of the Constitution of India stipulate that the State Government may endow the PRIs with the following powers, authority and responsibilities:

- Preparation of plans for economic development and social justice;
- Implementation of schemes for economic development and social justice as may be entrusted to them in relation to the matters listed in the Eleventh Schedule; and
- Powers to impose taxes and constitute funds for crediting all moneys of the *panchayats*.

With these objectives, the powers and functions of the GPs, PSs and ZPs have been defined by the State Government under sections 75, 76, 77 and 79 to 83 of the JPR Act, 2001. A summary of these powers and functions of the PRIs is given in **Appendix-1.1**. The functions of the authorities of the PRIs are given in **Appendix-1.2**.

1.3.2 Powers of the State Government

The JPR Act, 2001 entrusts the State Government with following powers to enable it to monitor proper functioning of the PRIs. A brief summary of powers and roles of the State Government in respect of PRIs is given in **Table-1.2** below:

Table-1.2: Powers of the State Government

Authority	Powers of the State Government
Section 131 of JPR Act, 2001	Power to frame rules: The State Government may, by notification in Official Gazette, make rules to carry out functions as specified in JPR Act, 2001, subject to approval by the State Legislature.
Section 100 and 135 of JPR Act, 2001	Power of Government to make model regulations and Inspections: The State Government may make model regulations and bye-laws for PRIs for the purposes of JPR Act, 2001 and has the power of Inspection of working of <i>panchayats</i> .
Section 123 of JPR Act, 2001	District Planning Committee: The State Government shall constitute in every district a District Planning Committee to consolidate plans prepared by the <i>Panchayats</i> and the Municipalities in the district and to prepare a Draft Development Plan for the district as a whole.
Section 114 of JPR Act, 2001	Finance Commission for Panchayats: The State Government shall constitute in every five year, a Finance Commission to review the financial position of PRIs, and to make recommendations for devolution of funds and measures to improve the financial position of PRIs.
Section 93 and 95 of JPR Act, 2001	Taxation: The PRIs may impose taxes on holdings, professions and levy tolls, fees and rates subject to the maximum rates notified by the State Government.
Section 163 of JPR Act, 2001	Removal of difficulties: If any difficulty arises in giving effect to the provisions of the Act, the State Government, may by order, do anything necessary to remove the difficulty.

1.3.3 Devolution of functions

The Eleventh Schedule of the Constitution contains 29 subjects pertaining to the PRIs. The State Government was to devolve functions, functionaries and funds to PRIs for these 29 subjects to enable these institutions to function as institutions of self-government, but only 16 functions were devolved to the PRIs (as detailed in **Appendix-1.3**) by 14 departments (December 2016). However, these functions were still being implemented by the departments except in the case of activities relating to construction of ponds (under Agriculture with agriculture extension function) and renovation of *anganwadis* (under Social welfare function). The officers and staff of the State Government required for execution of the entrusted functions have not been transferred/deputed to PRIs (20 March 2017).

The position of sanctioned strength and persons-in-position in test checked ZPs is detailed in **Appendix-1.4** and abstract thereof is given in the **Table-1.3**:

Table-1.3: Sanctioned strength vis-a-vis persons-in-position in test-checked ZPs.

Level of PRIs	Number of PRIs	Sanctioned strength	Persons -in-position	Vacancy
ZP	12	790	234	556

(Source: Information provided by the test checked PRIs)

The above table reflects acute shortage of manpower i.e.70 per cent at ZP level which affected their functioning. The test checked GPs stated that sanctioned strength of GPs was not intimated by the State Government.

1.4 Formation of various Committees

A GP may constitute seven Standing Committees for discharge of its functions and duties, and such committees shall be under general control of the GP and shall exercise such powers as may be conferred on them by the GP. The Secretary of the GP shall be the *ex-officio* Secretary of the Standing Committee.

Similarly, every PS and ZP shall constitute eight Standing Committees from amongst its elected members. The CEO/EO shall be the *ex-officio* Secretary of all the committees of the ZP/PS, as the case may be. The modalities for constitution of standing committees and their functions have been detailed in **Appendix-1.5**.

Moreover, ZP and PS may constitute one or more than one committee for such matters which do not come within the business ambit of the prescribed committees.

1.4.1 District Planning Committee

In pursuance of article 243 ZD of the Constitution of India and Section 123 of the JPR Act, 2001 the State Government issued gazette notification² in August 2011 and prescribed modalities for constitution of District Planning Committee (DPC) in every district of Jharkhand.

² Jharkhand *Panchayat Raj* (District Planning Committee, Constitution and procedures, powers and executions) Rules, 2011

The DPC is primarily responsible for consolidation of plans of all PRIs and Urban Local Bodies (ULBs) of a district. The objective of DPC is to arrive at an integrated, participatory and coordinated plan for development of a district.

It was noticed that although provision in Article 243 ZD of the Constitution mandated that not less than four-fifth of the total members of DPC should be elected from the elected members of ZP and municipal bodies, the JPR Act, 2001 provides only for selection of three-fourth members from the elected members.

Thus, the provision of the JPR Act, 2001 regarding representation of elected member in the DPC was in contravention to the Constitutional provision. As a result, provision for adequate representation of the elected members in the constitution of DPC was not ensured.

However, provisions have been made for constitution of sub-committees (**Appendix-1.6**) for giving suggestions to the DPC on the subject concerned.

On being pointed out it was replied (November 2016) by the department that issue was being examined at the department level.

1.5 Audit Arrangement

1.5.1 Primary Auditor

The Comptroller and Auditor General (CAG) 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 under sub-section (1) of section 20 of the CAG's DPC (Duties, Powers and Conditions of Service) Act 1971. Accordingly, the office of the Accountant General (Audit) (AG) is conducting audit of PRIs under Technical Guidance and Supervision (TGS) module as notified (October 2011) by the State Government after amendment of Bihar and Orissa Local Fund Audit Act³, 1925 in March 2012. Further, as per para 10.121 of the recommendations of Thirteenth Finance Commission, Audit Report prepared by Director of Local Fund Audit (DLFA) and the CAG shall be placed before the State Legislature. The State Government appointed (November 2014) DLFA as primary Auditor to audit the accounts of PRIs. However, DLFA did not commence (September 2016) audit of PRIs.

1.5.2 Audit by the Comptroller and Auditor General of India

During 2015-16, 13 ZPs, 36 PSs and 70 GPs were audited. Annual Technical Inspection Report (ATIR) for the year 2012-13, 2013-14 and Audit Report (Report of the CAG) on Local Bodies for the year 2014-15 have been placed before State Legislature but the State Government has not formed (August 2016) any committee in the line with the Public Accounts Committee or otherwise for discussion of the ATIRs and Audit Report.

1.5.3 Technical Guidance and Supervision

Under Regulation 152 of Regulations on Audit and Accounts, 2007 read with State Government Notification dated March 2012, CAG may provide suitable TGS to primary auditor⁴ of PRIs for the purpose of strengthening Public

³ Prior to TGS, Local Bodies were audited under the Act.

⁴ DLFA

Finance Management and Accountability in PRIs. The parameters of such TGS as given in Regulation 152 are following:

- The Local Fund Auditor shall prepare an annual audit plan for the next financial year by the end of March every year;
- The audit methodology and procedure for the audit of PRIs by the DLFA shall be as per various Acts and Statutes enacted by the State Government and guidelines prescribed by the CAG of India;
- Copies of Inspection Reports (IRs) shall also be forwarded by DLFA to the AG (Audit) for advice on system improvement;
- DLFA shall furnish returns in such format as may be prescribed by the CAG for advice and monitoring;
- AG (Audit) would conduct test check of some units in order to provide technical guidance and report of the test check would be sent to the DLFA for pursuance of action;
- Irrespective of the money value, any serious irregularities shall be intimated to the AG (Audit);
- DLFA shall develop a system of internal control in his organisation in consultation with the AG (Audit);
- AG (Audit) shall also undertake training and capacity building of the Local Fund Audit staff.

The State Government created 22 posts⁵ (March 2013) and appointed DLFA (November 2014) for constitution of the office of the DLFA to perform the duties of the primary Auditor as envisaged under the TGS arrangement. Against these posts, three Deputy Comptroller of Accounts and 14 Auditors have been appointed (August 2016). However, DLFA did not commence (September 2016) audit of PRIs.

DLFA informed (September 2016) conducting audit of the accounts of 35 ULB units by eight audit parties. However, IR on the accounts of Local Bodies, format prescribed for IR, method of preparation of audit plan and other requisite information though asked for (November 2016 and January 2017) in pursuit of the task of providing technical guidance and support was not responded to by DLFA as of February 2017.

1.6 Response to Audit Observations

The AG (Audit), Jharkhand conducts periodical inspection of PRI units by test-check of transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by issue of Inspection Reports (IRs). When important irregularities, etc. detected during inspection is not settled during audit period, these are included in IRs and issued to the head of the office inspected, and a copy of the same is sent to next higher authorities.

⁵ Director-1, Joint director (ULB)-1, Joint director (PRI)-1, Section officer-2, Private secretary-1, Assistant-4, Personal assistant-2, Computer operator-3, Upper division clerk-1, Lower division clerk-1, Driver-3, Peon-2

The CEOs of the ZPs, EOs of the PSs and the *Mukhiyas* of GPs were required to respond to observations contained in the IRs and send compliance report to AG (Audit) within four weeks. Further, according to TGS arrangement, the DLFA would pursue settlement/action taken on the audit observations raised by the AG (Audit) in the same manner as he would pursue his own reports/audit observations.

Details of outstanding paragraphs for the period 2011-16 against PRIs of the State as of March 2016 are shown in **Table-1.4**.

Table-1.4: Statement showing outstanding paragraphs

(₹ in crore)			
Year	IRs	No of Paragraphs	Money Value
2011-12	55	304	49.87
2012-13	231	1674	111.64
2013-14	88	610	6.62
2014-15	60	565	107.83
2015-16	100	570	12.90
Total	534	3723	288.86

A review of the IRs revealed that the executives, whose records were audited by the Examiner of Local Accounts, before entrustment of TGS (October 2011) did not send any reply in respect of outstanding IRs/paragraphs. This indicated lack of efforts by authorities in furnishing compliance to those paragraphs. The matter was brought (January 2017) to the notice of the Chief Secretary, Government of Jharkhand, Ranchi; the response is awaited.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

1.7 Ombudsman

Para 10.66 of the Thirteenth Finance Commission provides for constituting a separate ombudsman for local bodies by amending the respective State *Panchayat* and Municipal Acts.

However, the JPR Act, 2001 do not provide for constitution of ombudsman for PRIs. The State Government did not respond to the information request by audit about establishment of any institutional arrangement/Ombudsman for settlement of complaints against functionaries (elected as well as appointed) of PRIs.

1.8 Social Audit

Social audit involves verification of implementation of programme/scheme and delivery of its envisaged results by the community with active involvement of primary stakeholders. Social Audit is widely accepted as an important mechanism to address corruption and strengthen accountability in government service delivery. Government of India (GoI) enacted Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) Audit of Scheme Rules, 2011. The rules include social audit, audit of accounts and social audit facilitation by State Government and creation of independent

organisation for conduct of social audits. It was noticed that Social Audit Unit was established in Jharkhand in May 2016. However, during 2015-16, 49 Social Audits in GPs were conducted in the State under Mahatma Gandhi National Rural Employment Guarantee Scheme.

1.9 Submission of Utilisation Certificates

As per Jharkhand Financial Rules, in case of an annual or a non-recurring conditional grant, the Departmental officer on whose signature or counter-signature Grant-in-aid bill is drawn, shall furnish the Utilisation Certificates (UCs) to the AG within one year from the date of the sanction of the grant.

Information received (February 2017) from the Office of the AG (Accounts & Entitlement), Jharkhand revealed that against grants amounting to ₹ 1295.76 crore paid during 2011-12 to 2014-15 under Major Head 2515⁶ (Other Rural Development Programme), UCs amounting to ₹ 564.16 crore only was received in the Office of the AG (Accounts & Entitlement) as of December 2016. Failure to submit UCs of ₹ 731.60 crore for such a long period indicate weak internal control and possible misutilisation of funds.

1.10 Internal Audit and Internal Control System of PRIs

Section 100 of JPR Act, 2001 provides for inspection of working of *Panchayat*. The inspection of works and the working of *Panchayats* could be done by the officers authorised from time to time by State Government. The Office-bearer as well as officers and servants of a GP, PS and ZP shall be obliged to give all such information and produce all such records as may be called for by the Inspecting Officer.

RDD (PR) intimated (November 2016) to audit that DDC-cum-CEO, ZP is required to maintain internal control of PRIs. However audit noticed that internal control system was not established in the test checked PRIs.

Financial Reporting Issues

1.11 Financial Reporting Issues

1.11.1 Fund flow to PRIs

1.11.1.1 Source and custody of funds in PRIs

There are mainly three sources of funds for PRIs viz. (i) grants released by the Central and State Governments for development works and office expenses like salary grant for staff, contingent grant etc. (ii) loans by State Government for Salary and (iii) own revenues, in respect of ZPs like rent receipts from shops, *Dak Bungalows*, *Inspection Bungalows*, etc. Own revenue (other than interest earned on funds) in respect of PSs and GPs have not yet been generated⁷. Department at the State level does not compile any information of own revenue of the PRIs. Thus, Department was not aware of own revenue receipts of the PRIs. The fund flow arrangements for major schemes are given in **Table-1.5**.

⁶ Minor head 196, 197, 198-Assistance to ZP, PS and GP

⁷ Except revenue obtained from auction of sand *ghat* in some GPs

Table-1.5: Fund flow arrangements in major schemes

Sl. No.	Scheme	Fund flow arrangements
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	The funds received from GoI and GoJ are pooled in State Employment Guarantee Fund (SEGF). The fund flow is monitored through Public Fund Management System (PFMS). Share of both State and Central is kept with the sponsor bank at Ranchi. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the sponsor banks as and when payments are due.
2.	Backward Region Grant Fund (BRGF)	The funds are released by State Government to PRIs within 15 days of release of funds by GoI failing which State Government has to pay penal interest to PRIs at Reserve Bank of India rate of interest for the period of delay. However, the scheme has been delinked by GoI from the financial year 2015-16.
3.	Thirteenth Finance Commission (13 FC) Grants	Grant is released in two installments to the DDC-cum-CEO (the DDO) of the ZPs with instruction to transfer the respective share of PSs and GPs within two days of its receipt.
4.	Fourteenth Finance Commission (14 FC) Grants	Grants shall be released in two installments in June and October every year which must be transferred to the GPs within 15 days of receipt from the Central Government. The GoJ releases funds to the GPs through Real Time Gross Settlement (RTGS) on the basis of population and area.

1.11.1.2 Financial assistance to PRIs

The position of financial assistance given by Central and State Government to all PRIs under different schemes during 2011-12 to 2015-16 was as under:

Table-1.6: Position of receipts and expenditure of PRIs

Year	Receipts				Expenditure			Percentage of expenditure against total receipt
	Plan	Non-Plan	Loan	Total	Revenue	Capital	Total	
2011-12	827.03	316.30	2.27	1145.60	135.24	827.02	962.26	84
2012-13	748.39	475.62	2.50	1226.51	93.49	748.41	841.90	69
2013-14	513.91	626.15	2.71	1142.77	128.89	772.77	901.66	79
2014-15	827.57	640.99	3.51	1472.07	624.75	826.81	1451.56	99
2015-16	35.59	414.65	0.00	450.24	0.00	450.24	450.24	100

(Source: Information provided by the State Government)

From the table above, it is clear that expenditure against the total receipts of grants/loans ranged between 69 and 100 *per cent* during the years 2011-12 to 2015-16. Suboptimal utilisation of the available funds was noticed during 2011-12 to 2013-14.

1.11.1.3 Financial profile of selected PRIs

The details of receipts and expenditure of the test checked PRIs during the years 2011-12 to 2015-16 are shown in the **Table-1.7**.

Table-1.7: Position of receipts and expenditure of test checked PRIs

(₹ in crore)

Year	PRIs	Opening Balance	Receipt				Total	Expenditure		Total	Closing Balance
			Plan	Non-Plan	Loan	Own source		Non-Plan	Plan		
2011-12	ZP	233.72	203.64	2.17	0.58	10.62	450.73	3.96	213.73	217.69	233.04
2011-12	PS	3.60	14.98	2.94	0.00	0.00	21.52	2.95	12.87	15.82	5.70
2011-12	GP	0.38	4.74	0.00	0.00	0.00	5.12	0.03	3.59	3.62	1.50
2012-13	ZP	233.04	317.19	3.36	0.81	3.19	557.59	4.85	199.16	204.01	353.58
2012-13	PS	5.70	25.26	3.74	0.00	0.00	34.70	3.72	19.59	23.31	11.39
2012-13	GP	1.50	4.56	0.03	0.00	0.00	6.09	0.15	4.69	4.84	1.25
2013-14	ZP	353.58	274.59	1.46	0.96	3.25	633.84	3.33	307.78	311.11	322.73
2013-14	PS	11.39	32.32	4.54	0.01	0.02	48.28	4.63	28.84	33.47	14.81
2013-14	GP	1.25	4.75	0.00	0.00	0.02	6.02	0.05	4.73	4.78	1.24
2014-15	ZP	322.73	423.68	3.54	1.27	10.17	761.39	3.46	333.56	337.02	424.37
2014-15	PS	14.81	18.29	5.46	0.01	0.01	38.58	5.16	18.49	23.65	14.93
2014-15	GP	1.24	4.72	0.00	0.00	0.00	5.96	0.06	3.74	3.80	2.16
2015-16	ZP	424.37	101.99	2.88	1.18	7.19	537.61	8.66	228.31	236.97	300.64
2015-16	PS	14.93	16.06	5.11	0.01	0.02	36.13	5.16	18.69	23.85	12.28
2015-16	GP	2.16	5.92	0.00	0.00	0.00	8.08	0.00	5.52	5.52	2.56
Total		1624.40	1452.69	35.23	4.83	34.49	3151.64	46.17	1403.29	1449.46	1702.18

(Source: Information provided by the test checked PRIs)

Audit noticed that:

- Only 80 per cent of available funds amounting to ₹1764.94 crore (Opening Balance for the year 2011-12 of PRIs + fund received by PRIs during the year 2011-16) were utilised by the PRIs for execution of schemes (₹ 1403.29 crore) during 2011-12 to 2015-16.
- Own revenue of PRIs was not sufficient to meet its expenditure of its establishment. The own revenue⁸ (₹ 34.49 crore) of PRIs is only 75 per cent of expenditure incurred by them under the head establishment (₹ 46.17 crore).
- Own source revenue is very meagre, as it is only 2.31 per cent (₹ 34.49 crore) of fund received (₹1492.75 crore) during the period 2011-16.

1.11.1.4 Levy of Taxes

Section 93 of JPR Act, 2001 empowers ZPs/PSs/GPs to impose and collect tax on occupant of a holding, tax on business, trades, professions and employments, water rate etc. under their jurisdiction for augmentation of their own revenue. Further, the Act *ibid* advocates that State Government may make rules to regulate imposition, assessment and collection of the taxes. But, the State Government has not framed any rule for imposition of taxes by the *Panchayats* due to which PRIs are not imposing and collecting taxes as yet. As such PRIs are dependent solely on grants and loans from State Government for delivery of services. Further, PRIs were not empowered to generate own sources through taxation resulted in dependence on assistance from Government for discharge of their functions.

On being pointed out, RDD (PR) replied (December 2016) that State Government is preparing the proposal for revenue generation from own sources by the PRIs and certain *Panchayats* were getting revenue from auctioning of Sand mines.

⁸ Receipts such as shop rent, settlement money and interest earned

1.11.2 Recommendation of the State Finance Commission

The 73rd Constitutional Amendment provides for appointment of a Finance Commission by the State Government to review the financial position of the *Panchayats* and recommend the:

- (i) sharing pattern of the net proceeds of taxes, duties, tolls and fees leviable by the State between the State and the *Panchayats*;
- (ii) assignment of taxes, duties, tolls and fees to the *Panchayats*; and
- (iii) Grants-in-aid to the *Panchayats*.

The report of the Commission together with a memorandum of action on it is to be laid before the State Legislature.

In pursuance of Article 243 I of the constitution, the State Government had constituted three State Finance Commissions (SFC) to assess the financial status and to determine the principles on the basis of which adequate financial resources would be ensured to local bodies. Details are given in **Table-1.8:**

Table-1.8: Constitution of State Finance Commissions

State Finance Commission	Date of constitution	Date of submission of report
First SFC	January 2004	April 2009
Second SFC	December 2009	Not submitted
Third SFC	April 2015	In progress

The first SFC had submitted its report in April 2009 which contained some recommendations relating to urban local bodies only. The second SFC had not submitted its report due to want of manpower and finally its tenure ended in January 2014. The tenure of third SFC is in progress (up to January 2019) and its recommendations are awaited. The Secretary to third SFC had informed (January 2017) that the manpower given to the commission for running this organisation is insufficient and technically not sound enough to help/assist it to come out with any report. He further stated that the State Government has been moved to allow engagement of any policy making institution to help/assist the commission to undertake consultation and research work for coming out with a meaningful recommendation.

1.11.3 Maintenance of Records/Register

The Jharkhand *Panchayat Raj* (Budget and Accounts) Rules, 2010 prescribes maintenance of records, registers and accounts for transparency and accountability. A test check of record management in ZPs revealed that important records/ registers were not maintained as shown in **Table-1.9.**

Table-1.9: Failure to maintain basic records

Sl. No.	Records/ Registers not maintained	Name of the ZPs	Implications
1	Grant Register	Giridih, Latehar, Jamshedpur, Pakur, Ranchi, Sahibganj, Simdega	Grant received, purpose & date of receipt, appropriation made from time to time and amount lying unutilised in respect of a particular grant could not be ascertained.

Sl. No.	Records/ Registers not maintained	Name of the ZPs	Implications
2	Loan Register	Giridih, Latehar, Jamshedpur, Pakur, Ranchi, Sahibganj, Simdega	The date of receipt, amount, condition attached and overdue instalment of loan with interest could not be ascertained.
3	Asset Register	Giridih, Jamshedpur, Pakur, Ranchi, Sahibganj, Simdega	Identification and valuation of assets, proper record of all lands, sites of buildings, tanks, ponds, ferries etc. could not be ascertained.
4	Stock Register	Deoghar, Giridih,	Position of stock could not be verified.

(Source: Information provided by the test checked ZPs)

It is evident from above table that important records/registers are not being maintained properly by ZPs.

On being pointed out test checked ZPs stated that proper maintenance of records could not be done due to acute shortage of staff and lack of proper training to their concerned staff.

1.11.4 Annual Accounts

The Jharkhand *Panchayat Raj* (Budget and Accounts) Rules, 2010 prescribes for preparation of Annual Accounts/Reports of PRIs by the CEO/EO⁹ and submission by 30 May every year to General Administrative Committee of PRIs for its approval and the same shall be approved and accepted by the General Assembly of each tier of PRIs on or before 15 June every year. The Annual Accounts/Reports, after its approval by each tier of PRIs, shall be sent to the Divisional Commissioner and the Director, RDD (PR) by 30 June every year.

The RDD (PR) does not maintain consolidated information about finalisation of Annual Accounts of PRIs. Hence, status of preparation of Annual Accounts by all the PRI units in the State could not be commented upon. However, in 13 ZPs, 36 PSs and 70 GPs audited during 2015-16, it was observed that only five¹⁰ ZPs had prepared the Annual Accounts for 2015-16 as of December 2016 while rest of the test checked PRIs did not prepare the Annual Accounts for 2015-16 as of February 2017. Thus, the receipt and expenditure figures and the financial performance of the test checked PRIs for the year 2015-16 could not be verified in audit.

1.11.5 Preparation of Budget

Budgeting and budgetary process entails preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it was kept within the authorised grants or appropriations. With this objective, each PRIs was to prepare annual budget in terms of JPR Act, 2001.

⁹ The Block Development Officer (EO) for PS and GP and CEO for ZP

¹⁰ Deoghar, Garhwa, Hazaribagh, Latehar and Simdega

It was, however, noticed that nine test checked ZPs¹¹ did not prepare budget for the period 2011-12 to 2015-16. Also, none of the test checked PSs/GPs prepared their budget during the above period. Thus, in absence of the budget, expenditure made by the PRIs was in contravention to the provisions of the Jharkhand *Panchayat Raj* (Budget and Accounts) Rules, 2010. Further due to failure in preparation of the budget, the performance of the PRIs *vis-à-vis* their annual plans could not be evaluated.

1.11.6 Creation of Panchayat Raj Fund

Section 94 of JPR Act, 2001 provides for creation of *Panchayat Raj* Fund at every district in which receipts of Cess under section 93 of JPR Act, 2001, additional stamp fees¹² or such other taxes under the *Panchayat*, as specified by the State Government shall be deposited after making deduction therefrom of such collection charges as may from time to time be determined by the State Government.

The consolidated amount available in the *Panchayat Raj* Fund shall be distributed among the three-tier *Panchayats* in such manner and in such proportion as may be ascertained by the State Government.

Audit noticed that *Panchayat Raj* Fund was not created in any of the 14 test-checked ZPs except Hazaribagh ZP.

On being pointed out State Government replied (December 2016) that information was sought from the districts.

1.11.7 Appointment of Chief Accounts Officer

Section 90 of JPR Act, 2001 provides for appointment of Chief Accounts Officer (CAO) in every ZP, who shall advise the ZP on matters of financial policy and preparation of annual accounts and budget.

State Government has not appointed CAO in ZPs of the State and it has affected preparation of annual accounts, budget and maintenance of records (December 2016).

1.11.8 Adoption of Budget and Accounting formats

The CAG, in consultation with Ministry of *Panchayati Raj* (MoPR), GoI, prescribed a new accounting structure for exercising proper control and securing better accountability for preparation of budget and accounts and database on finances of PRIs comprising detailed heads and codes and forwarded (October 2009) to the State Government for adoption and its operationalisation from 1 April 2010 in the State.

MoPR recommended (October 2009) software for accounting of PRIs named as PRIASoft (*Panchayati Raj* Institutions Accounting Software) that captures three-tier revised classification and generates all the reports in the formats on Budget and Accounting Standards for PRIs. Once basic entries about the

¹¹ Garhwa, Giridih, Hazaribagh, Latehar, Jamshedpur, Pakur, Palamu, Ranchi and Sahibganj

¹² Stamp fees should firstly to be deposited in the consolidated fund of the state and the State Government may, at the commencement of every financial year, if such provision is made by appropriation bill passed in this behalf by the Legislative Assembly, withdraw from the consolidated fund of the State such an amount as will be equal to the receipts made (realised) by the State Government in the preceding year.

transactions are made by the Accountant, PRIASoft and the backend support will automatically generate reports, registers and information in the desired formats which could be used to prevent the public money meant for the end users from misuse and misappropriation.

MAS as well as PRIASoft, which was to be adopted from 1 April 2010, has been adopted by the State Government in November 2013 though directions in regard to maintenance of accounts in PRIASoft were issued with effect from 1 June 2011 in all tiers of PRIs. Status of feeding data through PRIASoftware by different units of PRIs is detailed in **Table-1.10**:

Table-1.10: Status of data entry in PRIASoft

PRIs	ZPs	PSs	GPs
Total number of accounting units	24	263	4402
Total number of units with voucher entry	11	83	3684

(Source: Report generated through PRIASoft on 24 January 2017)

1.11.9 Abstract Contingencies (AC)/ Detailed Contingencies (DC) Bills

As per Jharkhand Treasury Code, Contingent Charges requiring countersignature after payment are drawn on “abstract bills” which do not contain details of charges and are presented to the Treasury without any supporting vouchers. The monthly detailed bill in the case of countersigned contingent charges, shall be submitted to the controlling officer or if there is no controlling officer, to the AG with all sub-vouchers.

Information of AC/DC bills received (February 2017) from AG (Accounts and Entitlement) Jharkhand revealed that as on November 2016, DC bills in respect of 273 AC bills for an amount of ₹ 146.56 crore were pending for adjustment against RDD (PR).