



Part - A
Chapter – I

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

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 in the State

1.1 Introduction

Constitution (Seventy-third Amendment) Act, 1992 conferred Constitutional status to Panchayats and provided *inter alia* for constitution of Panchayats at village, intermediate and district levels, fixing tenure for Panchayats and regular election, devolution by the State Legislature of powers and responsibilities upon the Panchayats and sound finance of the Panchayats. Consequent to this amendment, Madhya Pradesh State Legislature enacted the Madhya Pradesh *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 with a view to ensure effective involvement of the Panchayati Raj Institutions (PRIs) in the local administration and development activities.

The administrative set up of Panchayats in the State consists of a three tier system: Zila Panchayat (ZP) at district level, Janpad Panchayat (JP) at block level and Gram Panchayat (GP) at village level. There were 51 ZPs, 313 JPs and 22,825 GPs in the State as of March 2016.

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

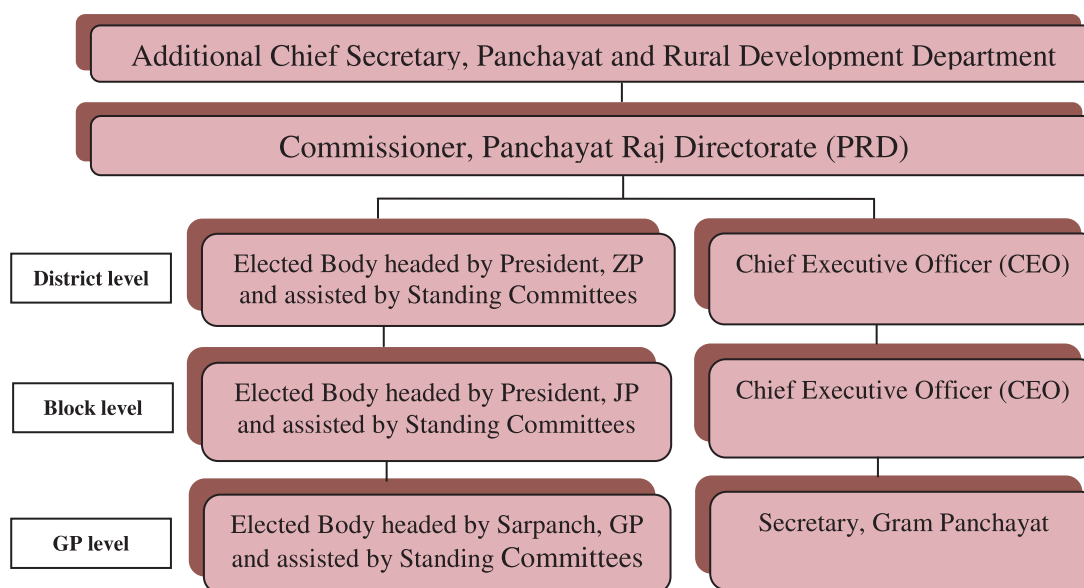
Particulars	Unit	Madhya Pradesh	All India
Population	crore	7.26	121.02
Share in country's population	per cent	6	-
Rural population	crore	5.26	83.30
Share of rural population	per cent	72.37	68.84
Rural Literacy rate	per cent	63.94	68.90
Rural Sex ratio (females per thousand males)	ratio	936/1000	947/1000

(Source: Census data 2011)

1.2 Organisational set up of PRIs

PRIs are under the administrative control of Panchayat and Rural Development Department, which is responsible for providing guidance to all the three tiers of PRIs for proper implementation of Panchayati Raj arrangements. The organisational set up of governance at State, District, Block and village levels is as follows:

Organisational Chart of Panchayati Raj Institutions



Section 46 and Section 47 of Madhya Pradesh *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 provided for constitution of following standing committees of GPs, JPs and ZPs:

Standing Committees of GPs	Standing Committees of ZPs and JPs
a. General Administration Committee b. Construction and Development Committee c. Education, health and social welfare Committee	a. General Administration Committee b. Agriculture Committee c. Education Committee d. Communication and Works Committee e. Cooperation and Industries Committee

1.3 Functioning of PRIs

Article 243 G of the Constitution of India provides that the Legislature of a State may, by law, endow 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 provisions for the devolution of powers and responsibilities upon Panchayats.

1.3.1 ZPs are the first tier of Panchayat at the district level. According to Section 29 of the Madhya Pradesh *Panchayat Raj Avam Gram Swaraj Adhiniyam*, 1993 (Act), every ZP shall consist of members elected from the constituencies, who are empowered (section 32) to elect a President and a Vice-President. The President shall be responsible for carrying out the activities of resolution of the ZP, all directions issued by the State Government and all functions assigned to the ZP under section 52 of the Act. He would be

responsible to ensure proper maintenance of records and registers, authorise payments, issue of cheque and refunds etc.

Further, Section 69 (3) states that the State Government shall appoint for every ZP a Chief Executive Officer (CEO) and may also appoint one or more Additional Chief Executive Officers, who shall discharge such functions and perform such duties as may be assigned to them by the CEO. The CEO is the administrative head and assisted by Departments like Public Health, Public Works, Rural Engineering etc. CEO, ZP is responsible to take action for resolution of ZP, supervise and control the execution of all activities of ZP. He is authorised to draw and disburse money out of the ZP fund as per the financial rule in this regard.

The CEO, ZP is responsible for preparing the budget for the planned development of the district and utilisation of the resources, drawing up annual plans for the economic development of the district and social justice and ensuring their implementation. CEO, ZP is also responsible for co-ordination, evaluation and monitoring of the schemes entrusted by the Central or State Government, appropriation of the grants received from the Central or State Governments to the JPs and GPs in accordance with the specified criteria.

1.3.2 Janpad Panchayats (JPs) are the intermediate tier of PRIs at the Block level. As per section 22 of the Act, every Janpad Panchayat (JP) shall consist of members elected from the constituencies, who are empowered (Section 25) to elect a President and a Vice-President. The president shall be responsible for carrying out the activities of resolution of the JP, all direction issued by the State Government and all functions assigned to the JP under Section 50 of the Act. He would be responsible to ensure proper maintenance of records and registers, authorise payments, issue of cheque and refunds, etc.

Further, Section 69(2) states that the State Government shall appoint for every JP a Chief Executive Officer (CEO) as the administrative head and may also appoint one or more Additional Chief Executive Officers, who shall discharge such functions and perform such duties as may be assigned to them by the CEO. The CEO, JP shall be assisted by Block Extension Officer, Accounts Officer, technical staffs like Assistant Engineers and other administrative staff. CEO, JP shall be responsible to take action for implementation of resolution of JP, supervise and control the execution of all activities of JP. He is authorised to draw and disburse money out the JP fund as per the financial rules in this regard.

1.3.3 Gram Panchayats (GPs) are the last tier of PRIs at the grass root level. As per Section 13 of the Act, every Gram Panchayat shall consist of elected Panches and a Sarpanch. The Sarpanch is elected as per the provisions envisaged in Section 17 of the Act. The Sarpanch shall be responsible for carrying out the activities of resolutions of the GP, all directions issued by the State Government and all functions assigned to the GP under Section 49 of the Act. He would be responsible to ensure proper maintenance of records and registers, authorise payments, issue of cheque and refunds etc.

Further, Section 69 of the Act provides that the State Government or the prescribed authority may appoint a Secretary for a Gram Panchayat or group of two or more Gram Panchayats. As per Gram Panchayat (Powers and function of the Secretary) Rules, 1990, it is the duty of the Secretary of the GP to convene and record the proceedings of Gram Sabha and meeting of GP,

regulate the functioning of GP, maintain all the official records in GP, prepare annual plan of GP, prepare estimates of revenue and expenditure and recover taxes and other dues of GP. Secretary is also responsible for maintaining cleanliness and hygiene, maintenance and upkeep of water resources, lighting and construction of village roads, promotion of youth welfare, implementation of programmes for social welfare and any other activities entrusted by the State Government, ZP or JP.

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 (April 2016) Local Bodies and Panchayatiraj Accounts Committee (LBPAC) for the year 2016-17 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 2015-16 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. However, Audit noticed (March 2017) that DLFA was not maintaining the consolidated information on number of PRIs audited by them during 2015-16.

- **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.

Report of Comptroller and Auditor General of India on Local Bodies for the year ended 31 March 2015 was tabled in the Legislative Assembly of Madhya Pradesh in July 2016. However, reports of DLFA for the year 2012-13 and onwards are under process for laying before the State Legislative Assembly (February 2017).

1.5 Response to audit observations

During 2015-16, compliance audit of 24 out of 51 ZPs, 88 out of 313 JPs and 1,020 out of 22,825 GPs were conducted by the office of the Accountant General (General and Social Sector Audit) Madhya Pradesh, Gwalior (*Appendix-1.1*). 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 in the same manner as if these are his own reports. A total number of 32,388 paragraphs in 5,441 IRs, including 9,786 paragraphs in 1,087 IRs issued during 2015-16, were pending for settlement as on January 2017, as detailed in **Table 1.1**.

Table-1.1: Status of outstanding IRs and Paragraphs as on January 2017

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 2011-12	3,027	--	15,646	--	6	357	3,021	15,289
2	2012-13	3,021	573	15,289	3,290	0	126	3,594	18,453
3	2013-14	3,594	500	18,453	3,516	0	74	4,094	21,895
4	2014-15	4,094	425	21,895	3,148	71	1,188	4,448	23,855
5	2015-16	4,448	1,087	23,855	9,786	94	1,253	5,441	32,388

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

1.6 Social Audit

To promote transparency and accountability in the implementation of a programme and providing a collective platform such as Social Audit Gram Sabha for people to express their needs and grievances, Social Audit Unit 'M.P. State Samajik Sampariksha Samiti' (MPSSSS), an independent agency, was established (January 2013) in the State, which was registered under M.P. State Society Registration Act 1973. MPSSSS is responsible to build capacities of Gram Sabhas for conducting social audit and facilitate verification of records of works done under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) by primary stakeholders.

MPSSSS informed (March 2017) that 506 social audits were conducted during 2015-16. Audit noticed that Social Audits were not conducted in the State with the prescribed frequencies during 2012-13 to 2015-16, as detailed in **Table 1.2**.

Table-1.2: Year wise status of Social Audit

Sl. No.	Year	Total no of GPs	Total no of Social Audit to be conducted twice in a year	Coverage of Social Audit (<i>per cent</i> with reference to no. of Social audit to be conducted)
1	2012-13	23,010	46,020	81(0.18)
2	2013-14	23,006	46,012	1,662 (3.6)
3	2014-15	22,823	45,646	931 (2.04)
4	2015-16	22,825	45,650	506 (1.11)
	Total	91,664	1,83,328	3,180

(Source: Information provided by Director, MPSSSS)

Thus, the coverage of Social Audit ranged between 0.18 *per cent* and 3.6 *per cent* of the required number of Social Audits to be conducted during 2012-13 to 2015-16. Further, the number of Social Audits conducted decreased from 1,662 GPs in 2013-14 to 931 and 506 GPs during 2014-15 and 2015-16 respectively. MPSSSS informed (March 2017) that the required number of Social Audit would be conducted after recruitment against vacant posts, which was under progress.

Financial reporting issues

1.7 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 Fourteenth 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 recommended (accepted by State Government in February 2010) that four *per cent* of divisible fund¹ of the State Government should be devolved to PRIs. During the year 2015-16, the devolution of SFC grants by the Finance Department to PRIs is shown in the **Table 1.3**.

Table - 1.3: Devolution of funds to PRIs

(₹ in crore)

Year	Divisible funds of State Government	Funds were to be devolved	Funds actually devolved	Short devolved
2015-16	28,944.50	1,157.78	910.00	247.78

(Source: Information provided by Finance Department and PRD)

It can be seen from **Table 1.3** that Finance Department short devolved funds to the tune of ₹ 247.78 crore to PRIs during 2015-16. The Finance Department informed (October 2016) that reason for short release would be intimated after finalisation of accounts.

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.

1.8 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 as shown in the **Table 1.4**.

Table – 1.4: Statement showing receipt and expenditure of PRIs

(₹ in crore)

Year	Grants in aid			Actual expenditure			Unspent funds (4-7)	Percentage of unspent fund
	Revenue	Capital	Total	Revenue	Capital	Total		
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
2015-16	21,044.83	110.50	21,155.33	15,272.97	1.94	15,274.91	5,880.42	28
Total	67,287.65	987.66	68,275.31	52,717.27	816.29	53,533.56	14,741.75	

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

As evident from **Table 1.4**, the grant allocation increased by 167 per cent for PRIs during the year 2015-16 as compared to the year 2011-12. However, PRIs could not spend the entire allocated grants and savings ranged from six per cent to 30 per cent during the period 2011-16 mainly due to considerable unspent balances in the Revenue Head.

In reply, PRD stated (January 2017) that instructions in respect of less expenditure had been issued to PRIs.

1.9 Accounting arrangement

1.9.1 Maintenance of Accounts

Comptroller and Auditor General (C&AG) of India and Ministry of Panchayati Raj, Government of India (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. MPAS provides for preparation of Receipt and Payment accounts, Consolidation abstract register, Statement of receivable and payable, Register of movable property, Register of immovable property, Inventory register, Demand and collection register etc. Government of Madhya Pradesh (GoMP) adopted MPAS with effect from August 2010.

Test check of 1,132 PRIs during the year 2015-16 revealed that none of the PRIs (24 ZPs, 88 JPs, and 1,020 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. Further, it was also noticed that PRD was not maintaining consolidated information regarding finalisation of annual accounts of PRIs.

In reply, PRD stated (January 2017) that instructions would be issued for maintaining the accounts in MPAS formats. However, at present, accounts were also maintained on Panchayat Darpan Website Portal.

Fact remains that none of the test checked PRIs was maintaining the accounts in MPAS formats, though adopted by GoMP with effect from August 2010.

1.9.2 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.

Test-check of 1,132 PRIs during the year 2015-16 revealed that 253 PRIs did not prepare Annual Budget. Further, 34 PRIs prepared their budget, but not within the prescribed time. The remaining 835 PRIs (ZPs-17, JPs-44 and GPs-774) did not produce relevant records/information to Audit. Details are as shown in **Table 1.5**.

Table – 1.5: Status of preparation of Annual Budget

PRI	No. of test checked PRIs	Scheduled time for budget approval by respective PRIs	No. of PRIs, which did not prepare budget	No. of PRIs, which prepared budgets with delays
ZP	24	20 January	02	04 (02 to 305 days)
JP	88	30 January	13	29 (6 to 526 days)
GP	1,020	21 February	238	1 (314 days)

(Source: Information compiled from test checked PRIs)

Thus, the rules for preparation of Annual Budget were not complied by the test checked PRIs.

1.10 Bank reconciliation statement not prepared

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

Test check of records 1,132 PRIs, revealed that 91 PRIs (ZPs-12, JPs-57 and GPs-22) did not prepare bank reconciliation. There were unreconciled differences in the closing balances of cash books and bank books of these 91 PRIs as of March 2015, as detailed in **Appendix-1.2**. Further, 107 PRIs (JPs-6 and GPs-101) did not produce relevant information/records. Failure of PRIs to reconcile the differences between balances of cash books and bank books was fraught with the risk of misuse of funds.

The CEOs of respective ZPs/JPs and Secretary of respective GPs stated (2015-16) that the bank reconciliation of difference between the balances of cash book and bank accounts would be carried out. In reply, PRD stated (January 2017) that instructions would be issued for bank reconciliation by PRIs.

1.11 Temporary advances not adjusted

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.

Test check of records of 1,132 PRIs revealed that temporary advances of ₹ 92.90 lakh provided by 44 PRIs to individuals since 1983-84, remained outstanding as on 31 March 2015. Details are given in **Appendix-1.3**.

The CEOs of the concerned PRIs stated (2015-16) that the recovery of advances would be made. In reply, PRD stated (January 2017) that instructions would be issued PRIs for adjustment of temporary advance.

1.12 Fourteenth Finance Commission Grants

Fourteenth Finance Commission (14th FC) Grants-in aid were released to the State in the form of Basic Grants during 2015-16. As per 14th FC recommendations, allocations to Gram Panchayats (GPs) within the State were to be made by the respective States. Further, States were required to release the grants to the GPs within fifteen days of it being credited to their accounts by the Union Government. In case of delay, the State Government must release the instalment along with interest at the bank rate of Reserve Bank of India paid from its own funds.

Audit scrutiny revealed that State Government received ₹ 1,463.61 crore of basic grant as per entitlement from Government of India (GoI) in two instalments of ₹ 731.81 crore (July 2015) and ₹ 731.80 crore (February 2016). However, State Government delayed the release of first instalment of grants to GPs, as detailed in **Table 1.6**.

Table - 1.6: Entitlement and release of 14th FC Basic Grant during 2015-16

(₹ in crore)

Entitlement of State	Receipt from GoI		Release to GPs		Delayed (Days)	Interest
	Date	Amount	Date	Amount		
1,463.61	13.07.2015	731.81	25.08.2015	575.00	27	3.51
			14.09.2015	156.81	47	1.66
	18.02.2016	731.80	02.03.2016	438.79	-	-
			03.03.2016	293.01	-	-

(Source: Information provided by Finance Department and PRD)

As a result of delays in release of grants to GPs, State Government sanctioned ₹ 5.17 crore as interest. However, the interest was not released to GPs along with instalments as recommended by 14th FC.

In reply, PRD stated (September 2016) that the interest could not be disbursed due to unavailability of budget in the Head 'Interest'.

Fact remains that the failure of State Government to release Basic Grants received from GoI within the prescribed time to GPs resulted in additional liability of ₹ 5.17 crore towards interest.