

Part - A

Panchayati Raj Institutions

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 (PRIs)

An Overview of the Functioning of the PRIs in the State

1.1 Introduction

The 73rd Constitutional Amendment Act, 1992 conferred Constitutional status to the Panchayati Raj Institutions (PRIs) and recognised them as the third tier of Government to ensure a more participative Government structure in the country. The amendment provided for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice. It also provided for transferring of 29 subjects, listed in the XIth Schedule of the Constitution of India for PRIs. Accordingly, the State was required to entrust PRIs with respective, functions and functionaries, so as to enable them to function as Local Self Government Institutions (LSGIs). The Constitutional Amendment provided for establishment of a uniform system within the States, conducting of regular elections, regular flow of funds *etc.* The legislative framework for conduct of business of the PRIs includes:

- Assam Panchayat Act, 1994 (AP Act, 1994);
- Assam Panchayat (Financial) Rules, 2002 [AP (F) Rules, 2002];
- The Assam Panchayat (Administrative) Rules, 2002 [AP (A) Rules, 2002]; and
- Government instructions, issued from time to time.

The Administrative set-up of panchayats in Assam consists of a three-tier system; Gaon Panchayats (GPs) at the Village level; Anchalik Panchayats (APs) at the intermediate level (co-terminus with Blocks); and Zilla Parishads (ZPs) at the District level.

There were 2,412 PRIs in the General Areas¹ of Assam, as on 31 March 2016. The Panchayati Raj system does not exist in the Sixth Schedule Areas, where local governance is vested with the Autonomous District Councils (ADCs).

Statistics related to the rural population of the State and the numbers of PRIs, as per census of 2011, are given in the following **Table 1.1**:

Table 1.1: Statistics related to the rural population and PRIs in Assam

Sl. No.	Indicator	Unit	Value
1	Population	Crore	3.12
2	Population density	Persons / Sq.km.	398
3	Rural population	<i>Per cent</i>	86
4	Rural Sex Ratio	Per thousand	960
5	Rural Literacy Rate	<i>Per cent</i>	69.34
6	Zilla Parishads (ZPs)	Numbers	21
7	Anchalik Panchayats (APs)	Numbers	189
8	Gaon Panchayats (GPs)	Numbers	2,202

Source: Economic Survey, Assam 2015-16.

¹ Areas not listed in the sixth schedule of the Constitution of India

The position of PRIs in Assam, in terms of number, average area and average population, is given in the following **Table 1.2**.

Table 1.2: Position of PRIs

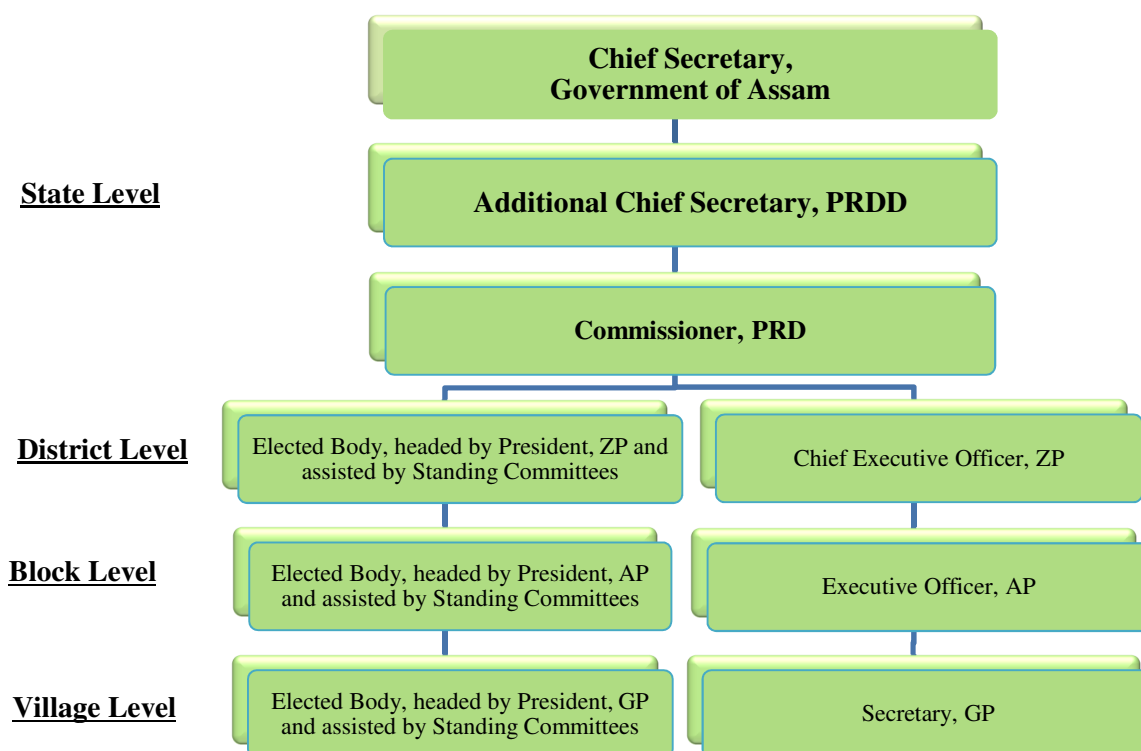
Level of LB	No.	Average Area per PRIs (Sq Km)	Average population
		As per 2011 census	
Zilla Parishad (ZP)	21	2032.93	1188256
Anchalik Panchayat (AP)	189	219.78	128460
Gaon Panchayat (GP)	2202	18.46	10793

Source: Assam State Finance Commission's report submitted for 14th CFC.

1.2 Organisational Set-up in State Government and PRIs

The Additional Chief Secretary, Panchayat and Rural Development Department (PRDD), is the administrative head of the Department. He is assisted by the Commissioner, Panchayat and Rural Development (P&RD), in the allocation of funds, overall control and supervision of functions and implementation of different schemes at the State level. The organisational set-up of PRIs is depicted in **Chart 1.1**:

Chart 1.1: Organisational set-up of PRIs



1.3 Functioning of PRIs

1.3.1 Administrative machinery in PRIs

The Administrative set up of panchayats in the State comprises of a three-tier system, GPs at the village level, APs at the intermediate level (co-terminus with Blocks) and ZPs at the District level. The Constitution enjoins the State Government to make appropriate legislation regarding devolution of powers and functions to the panchayats, in such a way as to enable them to function as LSGIs.

Subject to the provisions of the AP Act, Panchayats may make bye-laws to carry out their functions. The 73rd Constitutional Amendment empowered them with powers and authority in

revenue mobilisation and gave them access to such resources as the State Legislature may, by law, confer on them. Accordingly, the AP (F) Rules were framed in 2002 and amended in 2004, empowering all the three tiers to levy and collect taxes. Through the AP (F) Rules, GPs got the power to levy certain taxes viz., tax on houses and structures and tax on trades *etc.* However, the relevant bye-laws were not framed (March 2016).

1.3.2 Staffing pattern of PRIs

Regarding the staffing pattern fixed by the AP (A) Rules 2002, the Third Assam State Finance Commission (ASFC) observed that there was an acute shortage of staff at all levels of PRIs and recommended a revised staffing pattern, of 30, 20 and 8, for each ZP, AP and GP respectively, from 2008-09, as against the staffing pattern of 18, 8 and 3, which had been in existence, at the ZP, AP and GP levels, respectively, prior to the Third ASFC recommendations. It was observed that the revised staffing pattern recommended by Third ASFC has not been implemented by the PRDD (July 2016).

PRDD could not fill up the vacant posts of PRIs, inspite of necessary approval having been given by the Finance Department. Regarding new staffing patterns, Commissioner, P&RD stated (March 2016) that the proposed staffing pattern was under consideration of the Government.

The posts of Chief Accounts Officer (CAO) and Chief Planning Officer (CPO) had been created in each ZP, to provide advice on financial matters, as also to ensure the preparation of the ZP's Annual Accounts and Budget, and to advise the ZP on plan formulation. In February 2016, the State Government had given additional charge of the post of Chief Accounts Officer to 11 Finance & Accounts Officers (FAO) in 11 ZPs, in addition to their normal duties. However, full-fledged appointments were not made (March 2016) by the State Government.

The Third ASFC also observed that inadequacy of staff not only stands in the way of efficient performance of functions, but also retards collection of revenue from taxes and duties allocated to PRIs. It, therefore, recommended that the staffing pattern needed suitable modification, in conformity with the expanding activities of PRIs.

In the absence of an appropriate administrative machinery in the PRIs, a substantial portion of the budgetary outlays, under Plan and Non-plan, in the revenue accounts, earmarked for panchayats against transferred subjects, was being spent through the respective line departments.

1.3.3 Status of devolution of functions, funds and functionaries

For meaningful devolution, devolution of functions, from the line departments, to the PRIs, was a pre-requisite. However, the approach adopted by the State Government in this regard was partial, as out of 29 subjects listed in XIth Schedule of the Constitution of India, activity mapping of only 23 subjects were done by the GoA. Activity Mapping for the remaining six subjects were not done (July 2016). Further, out of the 23 subjects mapped, Government had issued orders for devolution of only seven subjects to the PRIs. Though GoA accepted (February 2014) the recommendation of the fourth ASFC for transfer of all activities listed in Schedule XI of the Constitution of India to the PRIs, along with requisite funds and functionaries, action in this regard was yet to be taken (October 2016) by the Government.

Apart from this, every year, a substantial portion of budgetary outlays, under Plan and Non-Plan revenue account were earmarked for PRIs, against transferred subjects. Till March 2016,

however, only Central Finance Commission (CFC) and State Finance Commission (SFC) funds were being passed on to the PRIs on a regular basis. Apart from this, the PRIs got funds under the District Development Plan (DDP). In addition, central funds channelised through the Backward Regions Grant Fund (BRGF) were received by PRIs at all levels, wherein the funds under other Centrally Sponsored Schemes (CSS) viz., Indira Awas Yojana (IAY), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) etc., were received by the APs and GPs from the DRDAs of the District. The position of allocations made and actually released to PRIs, under CSS and SFC, is depicted in the following **Table 1.3:**

Table 1.3: Position of allocations and release under CSS and SFC to PRIs

Source of fund	Total Allocation	Released to PRIs	Short release	Short release (in per cent)
	(₹ in crore)			
CSS	14187.10	8865.79	5321.31	37.50
ASFC	1985.03	900.46	1084.57	54.64
Total	16172.13	9766.25	6405.88	

It is evident from the above table that devolution of funds to the PRIs, in respect of the transferred subjects, was far below the allocation, as there were shortfalls of 37.50 and 54.64 per cent, in release of allocated funds, under CSS and SFC, respectively, to the PRIs. The GoA had created a Panchayat window in the State Budget and, every year, a substantial portion of budgetary outlays, under Plan and Non-Plan, in the revenue account, was earmarked for panchayats, against the transferred subjects. However, the earmarked amounts were actually being spent by the line departments.

1.4 Formation of various committees

1.4.1 Standing Committees

Sections 22, 52 and 81 of the Assam Panchayat Act, 1994 stipulate that PRIs shall constitute Standing Committees to perform functions assigned under the Act. Details of constitution of the Standing Committees and their roles and responsibilities are given in **Appendix-I**.

1.4.2 District Planning Committee (DPC)

As per Article 243ZD of the Constitution of India, the State Government is required to constitute a District Planning Committee (DPC), consisting of (i) members of the House of the People, who represent the whole or part of the District, (ii) members of the Assam Legislative Assembly; and (iii) number of persons, not less than four-fifth of the total number of members, from amongst the members of the ZP in districts, to consolidate the plans prepared by the panchayats in the District and to undertake integrated development of the District. Accordingly, Section 3 of AP Act, 1994 and AP (F) Rules 2002 framed thereunder, provide that the State Government shall constitute a DPC, with a tenure of one year, in every district. The Deputy Commissioner is a permanent invitee to the DPC of the District, while the President of the ZP is the Chairman and the CEO of ZP is the *ex-officio* Secretary of the DPC.

1.4.2.1 Role of the DPC

As per the AP Act, 1994, the DPC is to consolidate the plans prepared by the panchayats in the District, and prepare a draft Development Plan for the District as a whole, having regard to:

- Matters of common interest of panchayats in the District, including sectoral planning, sharing of water and other physical and natural resources; integrated development of infrastructure; and environmental conservation; and
- The extent and type of available resources, whether financial or otherwise. For doing so, it may consult such institutions and organisations as the Governor may, by order, specify.

The guidelines for preparation of a draft District Development Plan for PRIs (framed in June 2010) provided scope for a review of the implementation and monitoring of the plan by the DPC. However, it did not prescribe a mechanism for reporting of progress of implementation of the District Plan to the State Government. It was observed that most of the DPCs failed to perform their primary objective *i.e.* preparation of the District Plan as envisaged in the AP Act, 1994 as they did not call for submission of annual plans from the PRIs and other stakeholders, for preparing the Annual District Plans as a whole.

1.5 Audit arrangement

1.5.1 Primary Auditor

The Director of Audit, Local Fund (DALF), Assam, established under the Assam Local Funds (Accounts & Audit) Act, 1930 is the Primary Auditor of all tiers of PRIs in the State. The Directorate is responsible for (i) carrying out the Audit of Local Funds, with the help of 20 circle offices, each of which was headed by an Assistant Director to perform audit functions at the District level; and (ii) facilitating submission of Audit Reports of the Administrative Departments. The DALF operates with 122 audit parties, comprising of one Audit Officer and one or more Assistant Audit Officers. The audit is required to be conducted in conformity with the Assam Audit Manual, as also the relevant Government Rules and Amendments, issued by the Government from time to time.

1.5.1.1 Audit coverage by the DALF

There were arrears in the audit of PRIs, by the DALF, during the period 2011-16, ranging between 21 and 50 *per cent*. The year-wise positions of units to be audited, and those actually audited, are detailed in **Table 1.4**.

Table 1.4: Shortfall in covering the units planned for audit by DALF

Year	No. of units planned for audit	No. of units audited	Shortfall	Percentage of shortfall
2011-12	877	492	385	44
2012-13	1423	788	635	45
2013-14	1130	888	242	21
2014-15	1131	842	289	26
2015-16	1511	753	758	50

Source: Information furnished by DALF, Assam.

Apart from this, there was also an arrear in issue of 1153 audit reports (as of March 2016). The shortfall in audit coverage and arrear in issue of audit reports were attributed to non-filling of the post of Assistant Director, as well as engagement of Audit Officials in work relating to elections and updation of the National Register of Citizens² (NRC).

² The National Register of Citizens (NRC) is the register containing details of all Indian citizens. The NRC was prepared in 1951, after conduct of the Census of 1951, by recording particulars of all the persons enumerated during that census.

1.5.1.2 Presentation of the Annual Audit Report

As per para 101 (i) of the Assam Audit Manual, the DALF is required to send an Annual Audit Report to the Finance Department, by 30 September each year, incorporating major outstanding audit objections relating to PRIs, which are pending settlement, for further action by the Finance Department. The DALF has so far submitted three Audit Reports covering the period from 2010-11 to 2014-15. The status of consolidated Audit Reports, submitted by the DALF, is shown in **Table 1.5**:

Table 1.5: Audit Report submitted by DALF to the Government.

Sl. No.	Consolidated Audit Report for the year	Submitted to Government	Laid before Legislature
1	2010-11 and 2011-12	21 March 2013	10 February 2014
2	2012-13 and 2013-14	7 December 2014	19 December 2014
3	2014-15	13 November 2015	Yet to be laid (October 2016)
4	2015-16	Yet to be prepared (October 2016)	

However, follow-up action and Action Taken Reports by Finance Department on the Annual Consolidated Audit Reports of the DALF is wanting, thereby weakening the accountability mechanism for the PRIs.

1.5.2 Audit by Comptroller and Auditor General of India

Comptroller and Auditor General (CAG) of India conducts audit of substantially financed PRIs under Section 14 (1) of CAG's (DPC) Act, 1971 and audit of specific grants to PRIs under Section 15 of the Act *ibid*. The audit of PRIs is also conducted by CAG under Section 20 (1) of the Act, as per the Technical Guidance and Support (TGS) arrangements, as entrusted by the State Government in May 2002, followed by acceptance of the standard terms and conditions of TGS (May 2011), pursuant to the 13th FC recommendations. During April 2015 to March 2016, accounts of 80 PRIs (four ZPs, 39APs and 37 GPs) were audited.

1.6 Response to Audit Observations

Inspection Reports (IRs) were issued by the Accountant General (Audit), Assam to the audited PRI authorities with a copy of each to the State Government. PRI authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions brought out in the IRs and report their compliance promptly, from the issue of IRs. Important audit findings are also reported to the Government, through the Audit Reports on Local Bodies. The details of outstanding paragraphs, in respect of PRIs (as of March 2016), are shown in **Table 1.6**.

Table 1.6: Details of outstanding IRs and paragraphs

Year of Issue	No. of Inspection Reports	No. of Outstanding Paras	Money Value (₹ in crore)	First reply furnished
Upto 2011-12	530	3598	553.67	200
2012-13	42	281	157.92	7
2013-14	51	366	176.50	4
2014-15	109	820	475.25	12
2015-16	34	317	172.04	1
Total	766	5382	1535.38	224

Source: Progress Register.

Thus, 5382 paragraphs, with a monetary value of ₹1535.38 crore, were pending (March 2016) for settlement, for want of replies from the concerned PRIs. Even the first reply had not been received in respect of 5158 paragraphs. The increasing trend of outstanding paragraphs was

indicative of the fact that compliance to the audit observations was not taken seriously. The Administrative Heads of the departments concerned also did not ensure that the concerned officers of the PRIs took prompt and timely action in furnishing replies to IRs, thereby contributing to weakening of the accountability mechanism for PRIs.

1.7 Discussion of Audit Reports by Legislature

The Committee on Local Fund Accounts (CoLFA) has been constituted by the State Legislature to discuss the Audit Report on LBs, which contains audit findings relating to the PRIs. The position of discussion of the Annual Technical Inspection Reports (ATIRs)/Audit Reports, by the Committee, is shown in **Table 1.7** below:

Table 1.7: Position of Audit Reports discussed by the LFAC

Name of the Report	Laid before the Legislature	Whether discussed by Legislature	Action Taken Report, if any
ATIR 2009-10	19 December 2011	Discussed in full	Nil
ATIR 2010-11	04 April 2013	Not yet discussed	Nil
ATIR 2011-12	19 July 2013	Not yet discussed	Nil
ATIR 2012-13	04 August 2014	Not yet discussed	Nil
CAG's Audit Report on LBs (2013-14)	10 August 2015	Five paras discussed in September 2016	Nil
CAG's Audit Report on LBs (2014-15)	18 July 2016	Not yet discussed	Nil

As such, discussion of a number of ATIRs/Audit Reports is pending. Moreover, action taken reports on all the discussed reports are awaited (November 2016).

Accountability Mechanism of PRIs

1.8 Ombudsman

As per the guidelines issued by the Ministry of Finance on implementation of the recommendations of the 13th Finance Commission, the State Government is required to appoint an 'Ombudsman', to act as an independent quasi-judicial authority for Local Self Government Institutions at the State level, for conducting investigations and enquiries in respect of any complaints of corruption and maladministration against the functionaries of Local Bodies (both elected members and officials), and to recommend suitable action, in accordance with the provisions of the Act. There was, however, no provision in the AP Act regarding setting up of an Ombudsman for the PRIs.

In October 2014, the State Government initiated action for appointment of Ombudsmen for each of the 27 districts in the State, for a tenure of two years each, under section 27 (1) of the MGNREG Act, 2005. However, till October 2016, only 15 Ombudsmen under MGNREGA had been appointed, for sixteen³ districts. Selections for the remaining 11 districts were yet to be completed (October 2016).

1.9 Social Audit

The primary objective of Social Audit (SA) is to bring the activities of PRIs under close surveillance of people, to enable them to access the records and documents of PRIs. Such

³ Kamrup, Kamrup (M), Darrang, Nalbari, Cachar, Morigaon, Sivasagar, Karimganj, Hailakandi, Lakhimpur, Dhubri, Sonitpur, Nagaon, Goalpara, Barpeta and Dima Hasao. (One ombudsman was looking after both the Karimganj and Hailakandi districts).

immediate access to information would facilitate transparency and accountability in the day-to-day functioning of PRIs. Except for a provision made under the Assam Rural Employment Guarantee (AREG) Scheme under the MGNREGA, the State Government had not amended the relevant Panchayat Act, by including a statutory provision for conducting of social audits.

In July 2014, the Government designated the State Institute of Rural Development (SIRD) as the Nodal Agency for conducting Social Audit of all the Panchayati Raj Schemes and Rural Development Schemes of the GoI/GoA under PRDD. Accordingly, the SIRD conducted Social Audit of 2201 Gaon Panchayats during November 2014. Section 7(4) of the Audit of Schemes Rules, 2011 provides that the State Government shall be responsible to take follow up action on the findings of the social audit. Further, as per section 7(5) of the Rules *ibid*, the State Employment Guarantee Council (SEGC) shall monitor the action taken by the State Government and incorporate in the Annual Report to be laid before the State Legislature by the State Government. Though SEGC was constituted in Assam, it did not monitor the action taken by the State Government on Social Audit Report (SARs). The SAR is yet to be approved by the Government (October 2016). Further, the summary of findings of the Social Audit was also not submitted by the Government to the CAG. The report of the CAG of India containing the result of audit on MGNREG, Audit of Scheme Rules, 2011 (Social Audit Rules) was prepared for submission to the President of India under Article 151 of the Constitution of India and was placed in the Parliament on 29 April 2016.

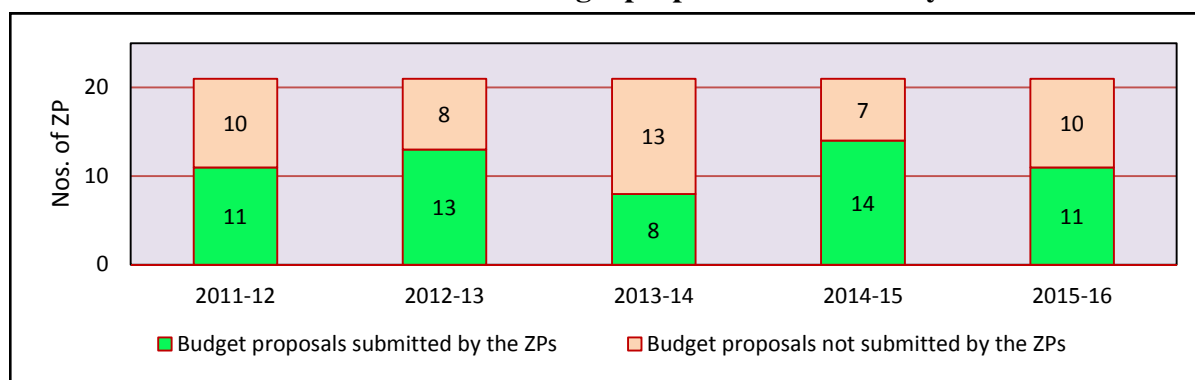
1.10 Lokayukta

The Assam Lokayukta and Upa-Lokayukta Act, 1985 (Assam Act XX of 1985) was introduced to improve the standard of Public Administration, through investigation of complaints against ministers, legislators and public functionaries, including those of PRIs. The institution of the Lokayukta was headed by the Upa-Lokayukta since March 2001, as the post of Lokayukta had been lying vacant for the last 21 years (since March 1995). Though the State Government had taken a number of initiatives for creating awareness among the people regarding the Lokayukta and Upa-Lokayukta Act, the Upa-Lokayukta received only seven complaints during the year 2015-16, out of which none was related to PRIs. Thus, there was a need to increase awareness among the people about the existence and functioning of the anti-corruption mechanism, in regard to its coverage of the PRIs, to make it more effective and useful to the public.

1.11 Submission of Budget

As per the AP Act, Budget proposals, containing detailed estimates of Income & Expenditure expected during the ensuing year, were to be prepared by the respective Standing Committees of PRIs, after considering the estimates & proposals submitted by the executive authorities of the PRIs every year. Rules 32, 33 & 34 of AP (F) Rules, 2002 further state that every GP, AP and ZP shall prepare their Budgets before the beginning of the Panchayat financial year, in the respective formats, by indicating minor heads. After considering the proposals, their Finance, Audit and Planning Committees are to prepare the budgets, showing the income and expenditure of the respective PRIs for the ensuing years and place them before the concerned governing bodies for approval. The approved budgets of the PRIs are to be consolidated by the ZPs, for submission to the State Government, for final approval.

The position of submission of budgets by the ZPs, during the last five years, to PRD, Assam, is shown in **Chart 1.2** below.

Chart 1.2: Position of Budget proposals submitted by ZPs

Source: Commissioner, P&RD, Assam,

The above table shows that, out of 21 ZPs, significant number of ZPs had not submitted budget proposals, during 2011-12 to 2015-16. Funds were released by the Government, irrespective of the position of submission of budget proposals by the ZPs. Thus, release of funds by the Government, without receiving the budget proposals from the ZPs, indicating lacunae in the process of planning, as well as in the monitoring of utilisation of released funds.

1.12 Submission of Utilisation Certificates (UCs)

The scheme guidelines of Centrally Sponsored Scheme (CSS) stipulate that UCs should be obtained by departmental officers from the grantees, and that they should be forwarded to the GoI after verification. Test-check of 80⁴ PRIs during 2015-16, however, revealed that, five⁵ PRIs had not submitted UCs amounting to ₹52.38 crore.

Pendency in submission of the UCs indicated monitoring of the utilisation of scheme funds by the DDOs and the Heads of Department (HoDs) needs further strengthening.

1.13 Internal Audit and Internal control system in PRIs

1.13.1 Internal Audit

Internal Audit is an important instrument for examining and evaluating the level of compliance with rules and procedures, as envisaged in the relevant Acts, as well as in the Financial/ Accounting Rules, so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the PRIs.

Rule 18 of the AP (A) Rules, 2002 provides for utilisation of internal auditors of the P&RD for proper and correct maintenance of accounts of PRIs. An internal audit wing, with internal auditors, was in place in the Commissionerate of P&RD, Assam. However, no internal audit of PRIs had been conducted (March 2016). The Department had no Audit Manual of its own and its main function was limited to assisting the Commissioner, P&RD, Assam, in settling the outstanding audit paras and inspection reports relating to the departmental units.

The above mentioned deficiencies adversely impacted the accountability of PRIs, insofar as obtaining independent assurance regarding compliance with Rules and Procedures, as envisaged in the relevant Acts/Rules, was concerned.

⁴ Four ZPs, 39 APs and 37 GPs

⁵ Karimganj ZP=₹2.33 crore; Cachar ZP=₹44.80 crore; Golaghat ZP=₹1.60 crore; Gaurisagar AP=₹3.20 crore; Bhawanipur AP=₹0.45 crore

1.13.2 Internal control mechanism in PRIs

The internal control mechanism is an integral component of an organisation, which helps it to govern its activities effectively and achieve its organisational objectives. Internal control measures assist in minimising the risk of errors and irregularities; ensuring compliance with applicable rules and regulations; and ensuring that the implementation of programmes is carried out in an orderly, economical, efficient and effective manner.

The internal control system, at each level of the PRIs, had been specified by the GoA, through the AP Act, 1994 and the AP (F) Rules, 2002, in addition to the State Government's own rules and policies relating to finance, budget and personnel matters. Significant provisions relating to the internal control mechanism in PRIs, as contained therein, are elaborated in **Appendix - II**.

The following deficiencies, indicating inadequacy of the internal control mechanism in the PRIs, were observed in Audit:

- The Department lacked control over its own revenue resources, as data regarding revenue mobilisation of the PRIs was not available. The department did not provide details of revenue collected for the year 2015-16, even after repeated persuasions.
- The Department failed to furnish information on the present status of preparation of accounts of the PRIs.
- Funds were released by the Government, even though ZPs had not submitted budget proposals, thereby defeating the purpose of annual budgeting and planning, as detailed in **Paragraph 1.11**.

Although these shortcomings were regularly pointed out to the PRIs, as well as to the State Government, through Inspection Reports and Audit Reports, there was a marked lack of remedial action in this regard.

1.13.3 IT and VAT not deducted

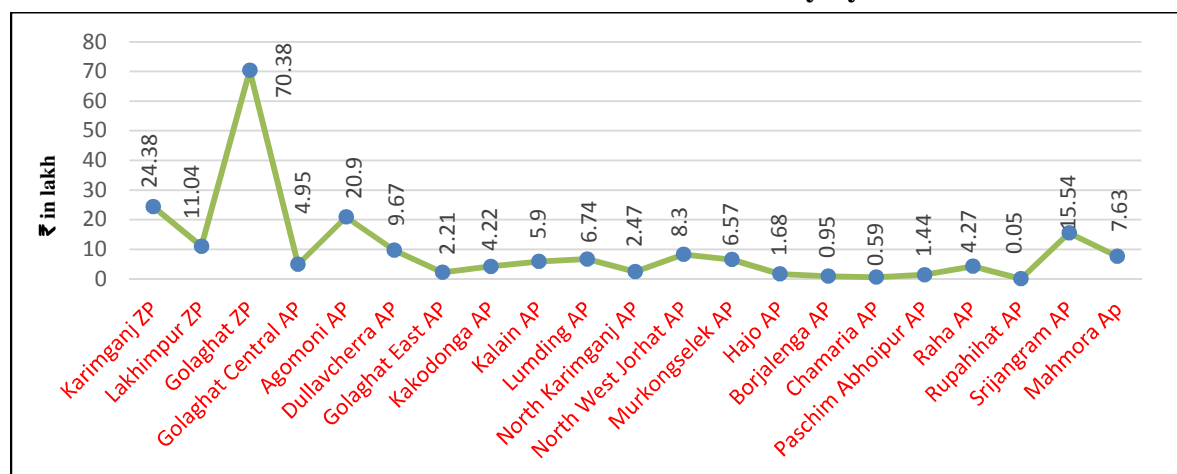
According to the Income Tax (IT) and State Value Added Tax (VAT) Acts, IT & VAT are to be deducted from the payment of contractors/suppliers. Test-check of records revealed that, in 13 PRIs⁶ (Three ZPs and 10 APs), VAT/IT, amounting to ₹58.96 lakh, were not deducted, resulting in loss of revenue to that extent.

1.13.4 Short collection of Kist Money

Sub-Rules 14 and 15 of Rule 47 of the Assam Panchayat (Financial) Rules 2002, stipulates that panchayats are required to recover the *kist*⁷ money from the lessees in due time. During test-check of records, it was noticed that there was short collection of *kist* money of ₹2.10 crore, in 21 PRIs, as shown in **Chart 1.3** below.

⁶ Karimganj ZP, Lakhimpur ZP, Cachar ZP, Tengaghat AP, Agomoni AP, Barbaruah AP, Kakodonga AP, Moirabari AP, North West Jorhat AP, Hajo AP, Chamaria AP, Hailakandi AP, Khowang AP

⁷ *Kist*: Installment.

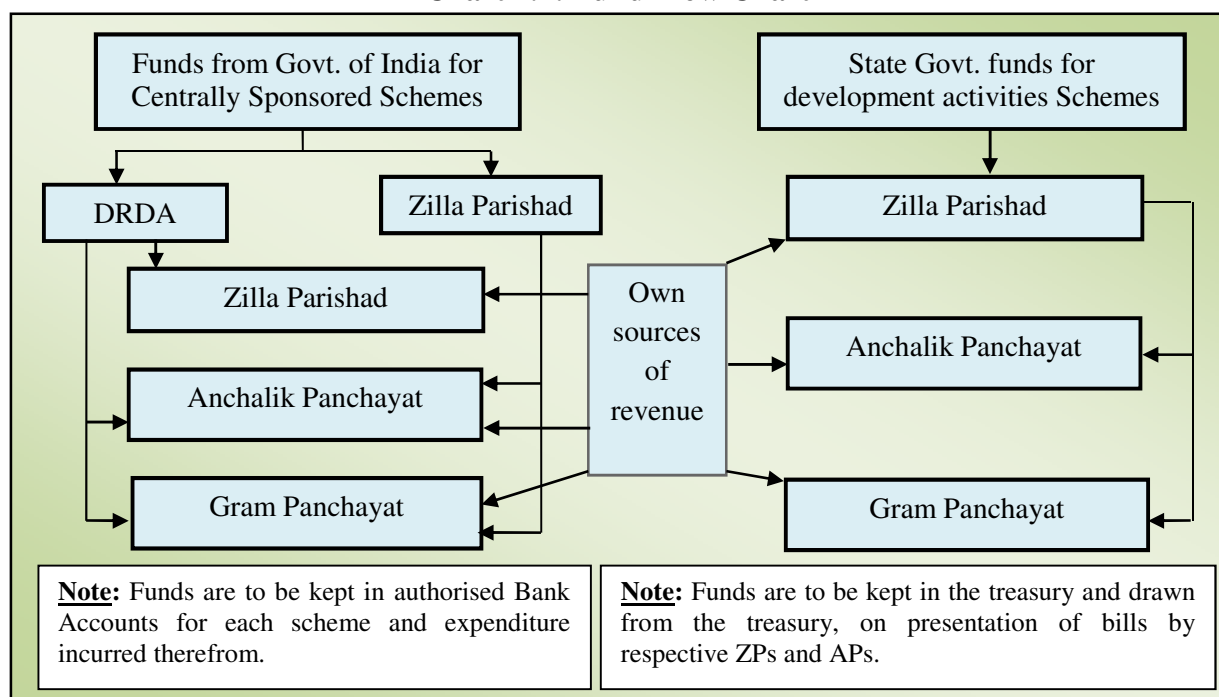
Chart 1.3: Short collection of Kist money by PRIs

Thus, due to short collection of *kist* money, revenue receipts of the PRIs were adversely affected to that extent.

Financial Reporting issues of PRIs

1.14 Sources of funds

The main sources of income for PRIs in the State are the funds released by the GoI under various Centrally Sponsored Schemes, CFC grants, SFC grants and State Government grants under various schemes. In addition, PRIs also mobilise revenue from their own sources, such as taxes, rents, license fees *etc.* The funds flow of PRIs is depicted in **Chart 1.4**:

Chart 1.4: Fund Flow Chart

The receipts of PRIs, from all sources, during the five years ending 2015-16, are shown in the following **Table 1.8**.

Table 1.8: Time-series data on resources of PRIs

(₹ in crore)

Source	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenues	87.85	176.16	193.80	213.18	NA
SFC transfers	227.96	104.42	158.23	298.84	147.36
CFC transfers	196.01	362.05	201.93	270.54	292.40
State Sponsored Schemes (SSS)	520.73	89.09	197.29	147.04	486.00
Centrally Sponsored Schemes (CSS)	1323.36	1211.38	2000.58	1879.94	2070.00
Total	2355.91	1943.10	2751.83	2809.54	2995.76

Source: Information furnished by Commissioner P&RD, Assam, and Finance (Economic Affairs) Department, GoA.

As can be seen from the above, there was an increasing trend of collection of own revenues by the PRIs during the years 2011-12 to 2014-15. The Commissioner, P&RD, did not furnish the total revenue collected by the PRIs during 2015-16. Though the receipt under CFC transfer and CSS had increased during the last five years, funds released through SFC and SSS had shown a fluctuating trend, with significant decrease in SFC during 2015-16 in comparison to the previous year, which affected many developmental activities in rural areas.

1.14.1 Public investment in the Social Sector and Rural Development

Details of public investment by the GoI, in the Social Sector and Rural Development, through major CSS, during 2011-12 to 2015-16, are shown in the following **Table 1.9**

Table 1.9: Statement showing investment through major CSS

(₹ in crore)

Sl. No.	Scheme	Year	Allocation of funds	Funds Released to PRIs	Short release of funds (4)-(5)
(1)	(2)	(3)	(4)	(5)	(6)
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	2011-12	1276.65	481.72	794.93
		2012-13	1017.51	588.46	429.05
		2013-14	1034.61	647.31	387.30
		2014-15	1101.02	554.6	546.42
		2015-16	1520.51	745.93	774.58
2	Indira Awas Yojana (IAY)	2011-12	867.28	867.28	0.00
		2012-13	894.37	71.27*	823.10
		2013-14	1040.21	985.9	54.31
		2014-15	1373.78	937.45	436.33
		2015-16	1428.73	1104.13	324.60
3	Backward Region Grant Fund (BRGF)	2011-12	168.19	140.54	27.65
		2012-13	177.75	92.92	84.83
		2013-14	228.79	199.88	28.91
		2014-15	213.65	139.41	74.24
		2015-16	discontinued		
4	National Social Assistance Programme (NSAP)	2011-12	188.76	168.76	20.00
		2012-13	167.14	156.13	11.01
		2013-14	230.82	230.82	0.00
		2014-15	248.46	248.46	0.00
		2015-16	197.81	197.81	NIL
5	National Rural Livelihood Mission (NRLM)	2012-13	217.14	162.91	54.23
		2013-14	291.45	105.92	185.53
		2014-15	172.70	16.46	156.24
		2015-16	129.77	21.72	108.05

Source: Information furnished by the Department; * State share only.

It may be seen from the above that there were constant short releases of funds to PRIs by GoA, in respect of the MGNREGS, BRGF and NRLM schemes. As these schemes were

mainly intended for the welfare and development of the rural poor, short releases of funds under these schemes hampered the holistic development of the rural population.

1.14.2 Devolution recommended by ASFC

Details of the quantum of devolution recommended by the Assam State Finance Commission (ASFC), and funds released by the GoA to PRIs, are indicated in the following **Table 1.10**.

Table 1.10: Devolution of Funds to PRIs

₹ in crore)				
Year	Net collection of the State Government	Amount to be devolved	Amount actually released to PRIs	Amount short released (3)-(4)
(1)	(2)	(3)	(4)	(5)
2011-12	7638.23	222.94	191.62	31.32
2012-13	8250.21	243.22	104.42	138.80
2013-14	6545.09	719.93	158.23	561.70
2014-15	7265.05	798.94	298.83	500.11
2015-16	42893.83	0	147.36	-

Source: The FASFC Report and information furnished by Director, Finance (Economic Affairs) Department, Assam.

As may be seen from above, no funds were allocated for devolution to the PRIs for the year 2015-16 as GoA had asked the 5th ASFC to revisit its report, in view of the recommendations of the 14th FC. However, the Commission had not yet submitted (July 2016) its final report in this regard. An amount of ₹147.36 lakh only was released by the Government as the salary component, with the non-salary component not being released (July 2016). As such, works related to various welfare activities for the year 2015-16 were yet to be started (July 2016) by the Government.

1.14.3 Fourteenth Finance Commission Grant

The weightage adopted by the 14th Finance Commission (14th FC) for inter-distribution of funds among the States were 90 *per cent* on population (as per 2011 population data) and 10 *per cent* on area. The grants to each State are divided into two parts - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of the urban and rural population of the States, using the data of Census 2011. An amount of ₹5416.58 crore was recommended for the PRIs in Assam. This amount has two components *viz.*, General Basic Grants (90 *per cent* of the recommended amount) and Performance Grants (10 *per cent* of the recommended amount).

The grants so recommended are to go directly to the PRIs, which are directly responsible for the delivery of basic services, without any share for other levels. The State Government is to take care of the needs of the other levels.

According to the 14th FC, for the period 2015-20, States will be eligible to draw their Basic Grants, which will remain fixed for each State, while Performance Grants can be drawn only after submission of audited annual accounts that relate to a year not earlier than two years preceding the year in which the concerned gram panchayats seek to claim the performance grant. Moreover, the gram panchayats are also required to show an increase in the own revenues over the preceding year, as reflected in their audited accounts.

1.14.4 Penal interest for late release of funds by the State Government

The position of grants released during 2011-16 by GoI and GoA, and penal interest for late release of funds to PRIs, is shown in the following Table 1.11.

Table 1.11: Release of 13th FC and 14th FC Grants to PRIs

(₹ in crore)

Programme year	Scheme components	Received from GoI	Released to PRIs	Penal interest for late release of funds
2011-12	General Performance Grant	52.20	52.20	0.72
	General Basic Grant	161.38	161.38	
2012-13	General Performance Grant	124.40	124.40	1.91
	General Basic Grant	181.61	181.61	
2013-14	General Performance Grant	139.88	NIL	2.21
	General Basic Grant	204.80	201.93	
2014-15	General Performance Grant	190.08	NIL	7.19
	General Basic Grant	279.26	263.74	
2015-16	General Performance Grant	NIL	NIL	Nil
	General Basic Grant	584.80	292.40	
TOTAL				12.03

Source: Director, Finance (Economic Affairs) Department, Assam.

It was observed that during the period covered by the 13th Finance Commission award, the State Government had paid penal interest of ₹ 12.03 crore for late release of funds. Further, during 2015-16, the GoA released only 50 *per cent* of funds received from GoI. As the time factor plays an important role in Assam, in view of season-specific limitations in execution of works, delays in releases of funds have the effect of hampering timely implementation of projects, which increases the possibility of cost-overruns, potentially leading to a number of incomplete projects.

1.14.5 Maintenance of Records

1.14.5.1 Assets Registers

All properties vested in the ZPs, APs and GPs are to be entered in the Register of Properties and Assets, in Form 6 of Rule 19 of the AP (F) Rules, 2002. The entries are to be attested by the officer concerned. Audit observed that the Asset Registers were not maintained by 16⁸ test-checked PRIs and also that the State Government did not call for any return on the nature of the assets, years of creation and monetary values of the assets.

1.14.5.2 Registers of Receipt Book and Stock Registers not maintained

As per Sub-Rule 1 of Rule 16, of the AP (F) Rules, 2002, a register of receipt book shall be maintained in Form 5 of the schedule, and kept under the personal custody of the CEO in case of ZP; the EO in respect of AP; and the Secretary, in respect of GP; or under the custody of any other officer, who is authorised in their behalf, under lock and key. However, Registers of Receipt Books could not be produced to audit by 15 PRIs⁹. As a result, the number of receipt books in operation could not be ascertained in audit. Not maintaining these Registers carries the risk of unauthorised operation of receipt books, as also the risks of fraud and embezzlement of funds.

⁸ Karimganj ZP, Cachar ZP, Golaghat ZP, Dullavcherra AP, North Karimganj AP, Pub-Nalbari AP, Gaurisagar AP, Hatidhura AP, Joymoti GP, Lengribor GP, Nazira GP, Simalugiri GP, Chamararia GP, Lagharghat GP, Borbheti GP and North Karimganj GP.

⁹ Cachar ZP, Golaghat ZP, Dullavcherra AP, North Karimganj AP, Pakabhetbari AP, Pub-Nalbari AP, Binnakandi (Cachar) AP, Gaurisagar AP, Hatidhura AP, Joymoti GP, Lengribor GP, Nazira GP, Simalugiri GP, Lagharghat GP and Borbheti GP

Similarly, the above 15 PRIs did not maintain the stock registers, as envisaged under Rules 30 (1 & 2) of AP (F) Rules 2002. As stock registers were not maintained, the actual receipt and utilisation of material could not be monitored by the PRIs. This could also facilitate misutilisation of material intended for implementation of the schemes.

1.14.5.3 Cash Books not reconciled

Rule 8, sub rules 4 (a), (b) and (c) of the AP (F) Rules 2002, stipulate that, all money received and payments made, should be entered in the Cash Book, which should be closed every day. Monthly closing of the Cash Book, with physical verification of cash and reconciliation of Cash book balances with bank balances, under proper authentication, are also to be carried out. Sub-rule 4(e) further stipulates that, at the close of each month, the bank balance, as reflected in the Cash Book, shall be reconciled with the balances as per the bank accounts.

During audit, it was, however, observed that Cash Book balances were not reconciled with bank balances in seven PRIs. Instances of un-reconciled balances, with differences ranging from ₹200 to ₹12.82 crore, were found in seven PRIs, as shown in **Appendix-III**. Failure to maintain the Cash Books, in terms of the provisions of the financial rules, could be indicative of irregularities in cash management. In addition, it could also facilitate fraud and embezzlement of Government money.

1.14.6 Maintenance of Accounts by PRIs

PRIs, with their increasing role, funds and enhanced accountability, are required to spend and record public money with utmost care. Such diligence can be achieved only if the financial recording and reporting systems are well established and functional. Accordingly, the Model Accounting System (MAS) for Panchayats was introduced (October 2009). Though the Government had accepted the MAS, the Commissioner, P&RD, could not furnish data on the present status of preparation and finalisation of accounts.

Instances of Annual Accounts not maintained by PRIs have been brought to the notice of State Government on several occasions, through Inspection Reports and Annual Technical Inspection Reports/Audit Reports. It was informed (October 2016) by the Commissionerate of P&RD, that the State Government had adopted PRIASoft since 2012-13, for maintenance of the accounts of PRIs, in the format prescribed by the MoPR, under the Model Accounting System (MAS).

During test check of PRIs, however, it was found that annual accounts were not being prepared by PRIs, in the manner prescribed under the AP (F) Rules, 2002, as detailed below:

1. Sub-Rule (4) (a) of the AP (F), Rules 2002 envisages that cash books shall be closed and balanced each day and checked by the concerned officer. However, cash books were not closed by six¹⁰ of the test-checked PRIs. Moreover, Bank Reconciliation Statements had not been prepared and appended in the cash books. Further, physical verification of cash had not been carried out and verification reports were not found recorded in the cash books.
2. Rule 16 of the AP (F), Rules 2002 envisages that a Register for Receipt Books shall be maintained in Form No. 5 of the Schedule. As per the said rule, at the end of each financial year, the stock of the receipt books should be checked by the officer concerned

¹⁰ Barpeta ZP, Dhubri ZP, Bhabanipur AP, Juria AP, Pub-Nalbari and Binnakandi AP (Cachar)

and a certificate indicating the result of the verification should be recorded in the Register of receipt books. Due to non-maintenance of registers of receipt books by three¹¹ of the test-checked PRIs, they were unable to check/monitor the number of receipt books issued, as also whether these receipt books were used or unused. Non-accountal of the receipt books may lead to unauthorised operation of receipt books, which is fraught with the risk of fraud and embezzlement of money.

3. Rule 19 of the AP (F), Rules 2002 envisages that, all properties vested in the ZPs, APs and GPs, shall be entered in the Register of Properties and Assets, in Forms No. 6 and 11 of the Schedule. No such Registers were maintained by three¹² of the test-checked PRIs. Due to non-maintenance of these Registers, movable and immovable properties, under the possession of the concerned PRIs, could not be ascertained.

1.14.7 Maintenance of database and the formats therein on the finances of PRIs.

Based on the recommendations of the 11th FC, CAG had prescribed database formats for capturing the finances of PRIs. The database formats were prescribed with a view to having a consolidated position of sector-wise resources and application of funds by PRIs, details of works executed by PRIs and their physical progress *etc.*

The 11th FC, in its award covering the period 2000-05, had earmarked funds for creation of a database for PRIs. The 12th FC had also recommended that States may assess the requirement of each PRI in this regard and earmark funds accordingly, out of the total allocation of the 12th FC grants. Despite the dedicated fund allocation, little improvement was made in development of the database, even though ₹56.21 crore (₹55.61 crore under the 12th FC and ₹0.60 crore under the 13th FC, upto 2014-15) were incurred on creation of the database, during the years 2008-2015. Though funds were released by the Government, the Commissionerate, P&RD, stated (October 2016) that they did not have the details of the utilisation of the fund and that information would be furnished after collecting the records from the ZPs.

The 14th FC, in its report, had also expressed similar dissatisfaction, mentioning that a reliable base data on the finances of the PRIs, was yet to be developed. Computerisation of PRIs in Assam also suffered, as GP offices had not been electrified.

The implementation of the programme of database on finances, therefore, needs to be reviewed and effective steps are required to be taken to develop the database at the earliest.

¹¹ Lakharghat GP, Paka-betbari AP and Pub-Nalbari AP

¹² Lakharghat GP, Nazira GP and Pub-Nalbari AP