

CHAPTER-I

PANCHAYATS, RURAL HOUSING AND RURAL DEVELOPMENT DEPARTMENT

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

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

1.1 Introduction

The 73rd Constitutional Amendment gave constitutional status to Panchayati Raj Institutions (PRIs). It established a system of uniform structure, regular elections, and continuous funds flow through State Finance Commissions. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as Local Self Government Institutions (LSGIs). In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice. It also included those enumerated in the Eleventh Schedule of the Constitution.

A three-tier¹ system of Panchayats was envisaged in the Gujarat Panchayats Act, 1961. This Act was amended in April 1993 to incorporate the provisions of the 73rd Constitutional Amendment.

The population growth in Gujarat during the last decade (2001-2011) was 19.30 *per cent* and was more than the national average of 17.70 *per cent*. By the year 2011, the population of the State was 6.04 crore, of which women comprised 47.90 *per cent*. The rural population of the State was 3.47 crore (57.45 *per cent*) and urban population was 2.57 crore (42.55 *per cent*). The comparative demographic and developmental picture of the State is given in **Table 1** below –

Table 1: Important statistics of the State

Indicator	Unit	State value	National value
Population	1,000s	60,440	12,10,855
Population density	<i>per Sq. Km.</i>	308	382
Rural Population	1,000s	34,695	8,33,749
Urban Population	1,000s	25,745	3,77,106
Gender Ratio	Females <i>per</i> 1,000 males	919	943
Population below poverty line	<i>Per cent</i>	16.80	27.50
Literacy	<i>Per cent</i>	78.00	73.00
Birth rate	<i>per</i> 1,000 Population	20.10	20.40
Infant Mortality Rate	<i>per</i> 1,000 live births	33	37
Maternal Mortality Ratio	<i>per</i> 1,00,000 live births	112	167
Gross State Domestic Product ²	₹ in crore	11,25,654	1,51,83,709
Panchayati Raj Institutions (PRIs)	Numbers	14,545	2,55,481
District Panchayats (DPs)	Numbers	33	618
Taluka Panchayats (TPs)	Numbers	247	6,618
Gram Panchayats (GPs)	Numbers	14265	2,48,245

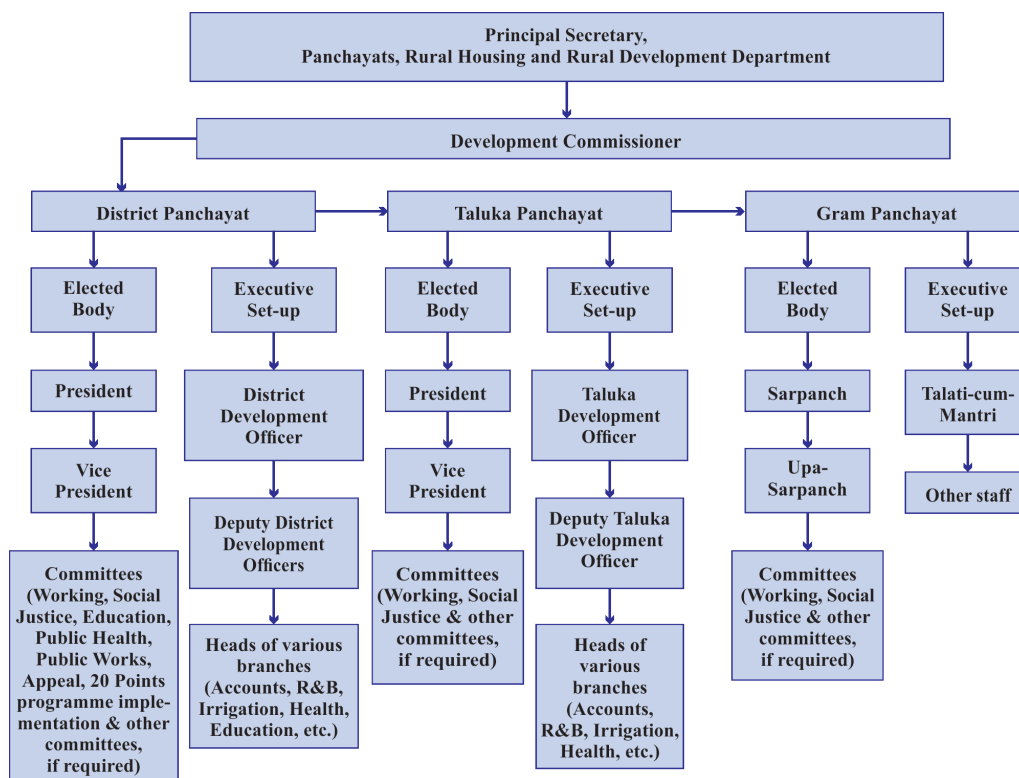
(Source: Socio-Economic Review 2016-17 of Gujarat and data available on the website of Planning Commission, Ministry of Health & Family Welfare and Ministry of Panchayati Raj, Government of India)

- 1 District Panchayat (DP) at district level, Taluka Panchayat (TP) at intermediate level and Gram Panchayat (GP) at village level
- 2 Source - Ministry of Statistics and Programme Implementation, Central Statistical Organisation (National) and Advance estimates by Directorate of Economics and Statistics, Gandhinagar (State)

1.2 Organisational set-up of the PRIs

Principal Secretary, Panchayats, Rural Housing and Rural Development Department (PRH&RDD) exercises administrative control over the PRIs. The PRH&RDD is responsible for framing policies pertaining to formulation and implementation of developmental schemes and administration. The PRH&RDD exercises administrative control through office of the Development Commissioner, Gandhinagar. The President and Vice President of the DPs and TPs are elected from amongst the elected representatives. The Sarpanch of a GP is elected directly by the villagers and the Upa-Sarpanch is elected from amongst the elected representatives. The Gujarat Panchayats Act envisages the functioning of the DPs, TPs and GPs through Standing Committees having elected representatives as members and chairperson. The Presidents in respect of DPs and TPs and Sarpanches of GPs are *ex-officio* Chairpersons of the Standing Committees.

The organisational set-up of the three tier system in Gujarat is shown below-



1.3 Functioning of PRIs

The 73rd Amendment to the Constitution envisaged transfer of 29 functions listed in the 11th Schedule of the Constitution to the PRIs. Article 243 G of the Constitution had empowered the State Legislature to decide and confer powers and responsibilities to the PRIs. As per Section 180 (2) of the Gujarat Panchayats Act, the State Government may entrust 29 functions to the PRIs to prepare and implement schemes³. State Government has, however, devolved (April 1993) 14 functions fully and five functions partially to PRIs. Ten functions have not yet been devolved. This indicated that the spirit of the Constitutional Amendment for the PRIs to function as grassroot level LSGIs has not been fulfilled.

³ Relating to economic development and social justice

1.4 Formation of various Committees

The number of Committees prescribed under the Gujarat Panchayats Act⁴ is seven⁵ for DPs and two⁶ for both TPs and GPs respectively. In addition, the Panchayats may, with the prior approval of the State Government, constitute Committee(s) for specific purposes.

Article 243 ZD of the Constitution of India envisages constitution of District Planning Committee (DPC) at district level in every State. DPC consists of such number of elected, nominated and permanent invitee members (not less than 15 and not more than 30) as determined by the Collector of the district. The Minister in-charge of the district is the Chairperson of the DPC. The tenure of DPC is five years and it is required to meet at least once in three months.

DPCs are constitutionally responsible to consolidate the plans prepared by Local Self Government Institutions (LSGIs) in the district. They are also responsible for preparing a Draft Development Plan (DDP) of the District as a whole for onward transmission to the Government. The DPC is to monitor the quantitative and qualitative progress, especially its physical and financial achievements in implementation of the approved DDP. The State Government, while preparing the State plan, considers the proposal and priority included in the DDPs prepared for each District by the DPC.

DPCs were constituted in only 11 out of 33 districts, meetings of DPC were not held in these 11 districts⁷ during 2016-17. This could have factored the aspirations and felt needs of the populace.

1.5 Audit arrangement

1.5.1 Primary Auditor

Examiner Local Fund Accounts (ELFA) is the primary auditor of the accounts of local bodies under the provisions of the Gujarat Local Fund Audit (GLFA) Act, 1963. The GLFA Act, 1963 provided that after the completion of the Audit, not later than three months thereafter, ELFA should prepare a report on the accounts audited and examined. The report need to be sent to the local authority concerned and copies thereof to such officers and bodies as the State Government may direct. The ELFA under the State Finance Department is headed by the Examiner and has district level offices headed by Assistant Examiners.

The status of Audit conducted by ELFA as of January 2018 is shown in **Table 2** below -

4 Article 145 and Article 123

5 Executive Committee, Social Justice Committee, Education Committee, Public Health Committee, Public Works Committee, Appeal Committee and Committee for implementation and review of Twenty Point Programme

6 Executive Committee and Social Justice Committee

7 Amreli, Aravalli, Banaskantha, Dahod, Dang-Ahwa, Junagadh, Mehsana, Panchmahals, Patan, Porbandar and Tapi

Table 2: Status of Audit by ELFA

PRI s	Number of Auditable entities⁸	Entities audited and period of accounts covered	Entities yet to be audited and period of accounts to be covered	Audit Report placed before the State legislature
DPs	26	2014-15	Nil	2012-13
TPs	223	2014-15	67(2014-15)	2012-13
GPs	14,002	2014-15	61 (2014-15)	2012-13

(Source: Information provided by ELFA)

The above table shows that Audit of 67 TPs and 61 GPs for the period 2014-15 and all DPs, TPs and GPs for the period 2015-16 onwards was in arrears. The Audit Report of ELFA on DPs, TPs and GPs for the year 2012-13 has been placed before the State legislature.

1.5.2 Audit by the Comptroller and Auditor General of India

State Government by a resolution (May 2005) entrusted the Technical Guidance and Supervision (TGS) over the audit of PRIs to the Comptroller and Auditor General of India (CAG). As per the resolution, the CAG would conduct test-check of some of the PRI and ULB units audited by the ELFA in order to provide technical guidance. The report of the test-check conducted by the CAG would be sent to the ELFA for pursuance of action taken by the PRIs and ULBs. Subsequently, the State Government entrusted (April 2011) audit of PRIs to CAG under Section 20(1) of CAG’s Duties, Powers and Conditions of Service (DPC) Act, 1971. It also provided that the CAG shall have the right to access the accounts and records of the PRIs under other sections of the CAG’s DPC Act, 1971 and under other due statutory process. The CAG may provide suitable TGS to primary external auditors of PRIs viz. ELFA for the purpose of strengthening Public Finance Management and Accountability in PRIs. The provision of laying of Audit Report of ELFA along with the Report of the CAG before the State Legislature was made by amending (May 2011) the Gujarat Panchayats Act, 1993. Accordingly, the Audit Reports for the year ended March 2012 to March 2016 had been placed before the State Legislature. The discussions of the Audit Reports have been assigned to the Public Accounts Committee (PAC) of the State Legislature. The PAC has completed the discussion of Audit Report for the year ended March 2013.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

1.6 Ombudsman

Thirteenth Finance Commission (ThFC) guidelines provided that the State Government must appoint “Ombudsman⁹” at the State level for LSGIs¹⁰.

⁸ The total numbers of DPs, TPs and GPs as compared to those shown in Table 1 under paragraph 1.1 of the Report differs due to non-updation of ELFA records

⁹ An independent quasi judicial authority

¹⁰ PRIs and ULBs

The Ombudsman shall conduct investigations and enquiries in respect of any complaints of corruption and mal-administration. Thereafter, it may recommend suitable action against the functionaries of both elected members and officials concerned in accordance with the provisions of the Act.

The State Government decided to bring the functionaries of local bodies under the jurisdiction of Lok Ayukta. Accordingly, a bill seeking to amend the Gujarat Lokayukta Act, 1986 had been passed by the State Legislature on 30 March 2011 and the Gujarat Lokayukta Ayog Act, 2013 was enacted in September 2014. The appointment of Lokayukta was under consideration in General Administrative Department of the State.

1.7 Social Audit

The system of Social Audit (SA) was introduced to curb corruption and to promote integrity and quality of decision-making in delivery of public services. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in LSGIs.

In Gujarat, Social Audit has been carried out only in respect of works carried out under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) through UNNATI¹¹ upto January 2015 and thereafter through Gujarat State Social Audit Society. The State Government constituted (September 2014) an independent Social Audit Unit and also constituted (September 2014) State and district level committees to select the resource persons (RPs) for the State and district levels. As against sanctioned posts of one Director and five RPs at State level and 16 RPs at district level, only a Director (July 2017) and a RP (December 2017) at State level and seven RPs (December 2017) at district level had been appointed. Thus, Social Audit of works other than MGNREGS was not being carried out in the State.

1.8 Submission of Utilisation Certificates

The Gujarat Financial Rules¹² provided that Utilisation Certificates (UCs) for the grants should be submitted within 12 months of the closure of the financial year. The UCs shall be submitted by the institution or organisation concerned to the Head of Department concerned and after verification; these should be forwarded to the Accountant General. Audit observed that 180 UCs aggregating to ₹ 80.72 crore due in respect of grants paid upto 2015-16 were outstanding as of 31 March 2017.

1.9 Internal Audit and Internal Control System of PRI

Internal Audit and Internal Control System in an organisation is meant to ensure that PRIs have instituted their own internal audit function. It helps to ensure effective management of their own operations and sustain quality of their administrative as well as financial performance. It also helps to ensure whether the operations are carried out according to the applicable laws and regulations

¹¹ A Non-Government Organisation

¹² Rule 154 and 155 of the Gujarat Financial Rules, 1971

and in an economical, efficient and effective manner. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities. It helps to protect resources against loss due to waste, abuse and mismanagement.

The State Government had constituted (1982) an Audit Branch in each DP under the direct supervision of an Accounts Officer. The Audit Branch helps all branches of the DP in preparation and maintenance of the Accounts, Budget and all other required financial statements. All bills of DPs and TPs exceeding ₹ 40,000 are being pre-audited by the Audit Branch.

1.10 Financial Reporting Issues

1.10.1 Source of funds

In addition to own source of tax and non tax revenue¹³ and capital receipts¹⁴, PRIs receive funds from State Government and Government of India (GoI). Funds are received in the form of grants-in-aid/loans for general administration, implementation of development scheme/works, creation of infrastructure in rural areas, etc. Besides, grants from State/Central Finance Commission are also received.

The receipt of PRIs from all sources during the last five years ending 2016-17 is shown in the **Table 3** below –

Table 3: Sources of revenue of PRIs

	(₹ in crore)				
Revenue	2012-13	2013-14	2014-15	2015-16	2016-17
Government Grants	14,464.38	17,295.00	17,503.96	18,287.26	15,821.41
Own Revenue	268.66	273.88	276.98	282.50	777.18
Central Finance Commission Grants	322.53	420.04	525.26	932.25	1,460.18
Total	15,055.57	17,988.92	18,306.20	19,502.01	18,058.77

(Source: Information furnished by the PRH&RDD)

The above table shows that there was complete dependence of PRIs on the Government grant for even carrying out their basic functions. This impacted their fiscal autonomy, which is an important issue to be addressed for improving governance at the grassroots level.

1.10.2 Recommendations of the State Finance Commissions to PRIs

Article 243 I of the Constitution made it mandatory for the State Government to constitute a State Finance Commission (SFC). The SFC was to be constituted within one year from the enactment of 73rd Constitutional Amendment and thereafter on expiry of every five years. The SFC was responsible to review the financial condition of the PRIs and to make recommendations to the Governor for devolution of funds.

13 Fair Tax (Tax on melas held in the jurisdiction of PRIs), building tax, fee, rent from buildings and water reservoirs, etc.

14 From sale of land

The State Government had accepted 27 out of 52 recommendations (52 per cent) made by the First SFC and 20 out of 41 recommendations (49 per cent) made by the Second SFC. The department could implement only nine and seven accepted recommendations of First and Second SFCs respectively (October 2017). The Third SFC had submitted their report in December 2013. The Action Taken Report (ATR) on the Third SFC report from the State Government department was awaited. Consequently, the ATR had not been placed before the State Legislature.

1.10.3 Recommendations of Central Finance Commission

1.10.3.1 Unspent Grant of Thirteenth Finance Commission

On the recommendation of Thirteenth Finance Commission (ThFC), GoI released ₹ 1,797.29 crore to the State Government during the period 2010-15. Out of this, the State Government could utilise ₹ 1,717.84 crore, leaving unspent balance of ₹ 79.45 crore as of January 2018.

1.10.3.2 Recommendations of Fourteenth Finance Commission

The Fourteenth Finance Commission of India was constituted in January 2014 for the period 2015-2020. The Fourteenth Finance Commission (FFC) grants are divided into two components – Basic Grant (BG) and Performance Grant (PG). The BG and PG can be assessed by all States as per criteria laid down by the Commission. The State Government is required to release the grants to PRIs within 15 days from the date of receipt of grants from GoI. The details of funds allocated and released to the State by GoI and funds released to PRIs and its utilisation by them during the period 2015-17 are shown in **Table 4** below –

Table 4: Details of funds utilised by the PRIs during 2015-17

(₹ in crore)

Year	Grant allocation		Grant received		Grant released		Expenditure
	BG	PG	BG	PG	BG	PG	
2015-16	932.25	0.00	932.25	0.00	932.25	0.00	805.59
2016-17	1,290.86	169.32	1,290.86	169.32	1,290.86	169.32	915.47
Total	2,223.11	169.32	2,223.11	169.32	2,223.11	169.32	1,721.06

(Source: Information provided by PRH&RDD)

The above table shows that the PRIs could utilise only ₹ 1,721.06 crore (72 per cent) as against ₹ 2,392.43 crore received during 2015-17.

1.10.4 Maintenance of Records

■ Cash Book

The Gujarat TP and DP Finance Accounts and Budget Rules, 1963 provides that the Cash Book is a preliminary and important record. It should be maintained properly under the supervision and control of the office/branch officer. Audit observed deficiencies/omissions in maintenance of Cash Book at three DPs, eight TPs and 29 GPs test-checked during the year 2016-17.

■ **Other records**

As per codal provision, PRIs are required to keep and maintain registers/records, books/accounts in prescribed formats giving all the required details. Audit observed non-maintenance/improper maintenance of records in DPs, TPs and GPs test-checked during 2016-17 as shown in **Table 5** below –

Table 5: Non-maintenance/improper maintenance of records

PRIs	Number of units audited 2016-17	Agreement Register	Advance Register	Dead Stock Register	Grant Register	Work Register
DPs	11	7	3	1	8	7
TPs	13	0	0	1	7	3
GPs	45	0	0	0	0	0

1.10.5 Reconciliation of Balances as per Cash Book with Treasury/Bank Pass Book

The Gujarat TP and DP Finance Accounts and Budget Rules, 1963 provided that reconciliation of balances of Cash Book with the balances in the Treasury/Bank Pass Book should be carried out at the end of each month. Audit observed that the reconciliation of balances was not carried out in one DP, seven TPs and one GP test-checked during the year 2016-17

1.10.6 Maintenance of Accounts by PRIs

State Government decided (September 2004) to accept the Model Accounting System (MAS) prescribed by the CAG. It provided four-tier classification of accounts viz. major head, minor head, sub head and object head. The State Government issued (March 2011) instructions for maintaining accounts as per double entry accrual accounting system in Gujarat Rural Accounting Management (GRAM) software. It shall also include eight formats prescribed in MAS in addition to the requirement of respective Financial Rules of PRIs. Audit observed that the State has adopted these eight formats of MAS in the GRAM software. Audit also observed that the web based software (PRIASoft) developed by the GoI for maintenance of accounts of PRIs had not been adopted by the State Government.

1.10.7 Issues related to AC/DC Bills

As per Gujarat Treasury Rules, 2000, the drawing officers are required to furnish the Detailed Contingent (DC) Bills in respect of all Abstract Contingent (AC) Bills. The DC bills are required to be furnished within three months from the date of drawal of AC Bills to Accountant General (A&E). As of March 2017, DC Bills in respect of 1,436 AC Bills for an amount of ₹ 41.71 crore were outstanding though the prescribed period of three months had elapsed.

The State Government may issue instructions to the PRIs for submission of DC Bills within the prescribed time limit for timely regularisation of advance drawn on AC Bills.

1.11 Conclusion

The State Government had devolved 19 out of 29 functions to the PRIs as envisaged in the 11th Schedule of the Constitution. DPCs were constituted in only eleven districts out of 33 districts; Meetings of DPC were not held in these eleven districts during 2016-17. Audit Report of ELFA on DPs, TPs and GPs upto 2012-13 has been placed before the State Legislature till January 2018. The appointment of Lokayukta had not been made. As on 31 March 2017, 180 UCs aggregating to ₹ 80.72 crore due in respect of grants paid upto March 2016 were outstanding. The report of the Third SFC submitted in December 2013 was yet to be placed before the legislature. The PRH&RDD could implement only nine and seven accepted recommendations of first and second SFCs respectively. As of January 2018, an unspent grant amount of ₹ 79.45 crore of Thirteenth Finance Commission was lying with the PRIs. Deficiencies/omissions in maintenance of cash book and non-maintenance/improper maintenance of records were noticed in PRIs test-checked during 2016-17.

