
Chapter – I

An Overview of the functioning and financial reporting issues of Panchayat Raj Institutions

Section-A
**An Overview of the functioning of the
Panchayat Raj Institutions (PRIs) in the State**

1.1 Introduction

Government of India (GoI) enacted (1992) the 73rd amendment to the Constitution to empower Panchayat Raj Institutions (PRIs) as local self-governing institutions to ensure a more participative governing structure in the country. Accordingly, State Government enacted Andhra Pradesh Panchayat Raj (APPR) Act¹ in 1994 and repealed all the earlier Acts, to establish a three-tier system viz., Gram Panchayat (GP), Mandal Praja Parishad (MPP) and Zilla Praja Parishad (ZPP) at Village, Mandal and District levels, respectively. The profile of PRIs in the State is given in Table 1.1:

Table 1.1

Indicator	Unit	State Statistics
Area	Sq.km	1,12,077
Mandal/Tahsil	Number	584
Villages	Number	10,434
Total Population (Census 2011)	Crore	3.52
Rural population	Crore	2.16
Rural sex ratio	Females per 1000 Males	999
Density	Persons per Sq.km	312
Rural literacy rate	Percentage	57.30
Male literacy rate	Percentage	75.04
Female literacy rate	Percentage	57.99
Scheduled Caste Population	Percentage	17.47
Scheduled Tribe Population	Percentage	0.99
Zilla Praja Parishads	Number	9
Mandal Praja Parishads	Number	438
Gram Panchayats	Number	8,684

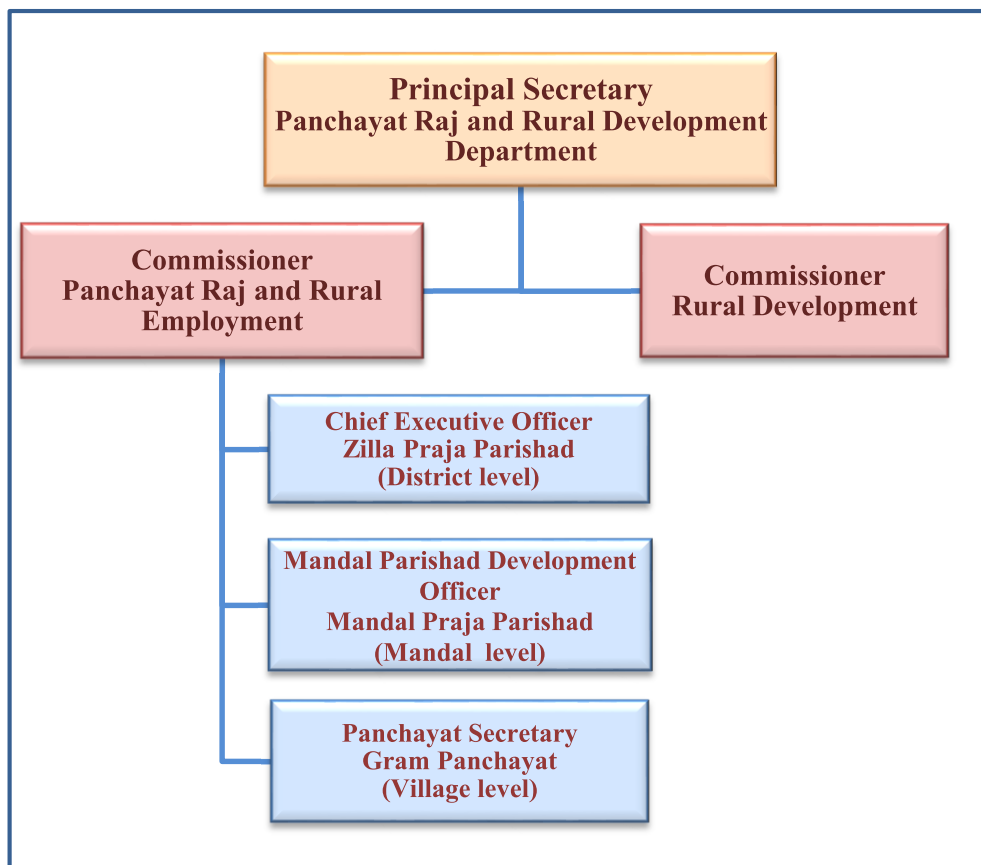
Source: Information furnished by Commissioner, Panchayat Raj and Rural Employment and Telangana at a Glance 2017 published (June 2017) by Directorate of Economics and Statistics, Government of Telangana

¹ Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

1.2 Organisational set-up of PRIs

Organisational arrangements for the PRIs are as follows:

Chart 1.1



Elections to the PRIs at all the tiers was last conducted in July 2013/April 2014. The elected members of ZPP, MPP and GP were headed by Chairperson, President and Sarpanch respectively. They convene and preside over the meetings of standing committees and general body.

1.3 Functioning of PRIs

Eleventh Schedule to 73rd Constitutional Amendment Act, 1992 lists 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10² functions to PRIs and, thereafter, no functions were devolved. Funds relating to devolved functions were released to PRIs through line departments concerned. During 2016-17, only three departments released

² (i) Agriculture and Agriculture Extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Health and Sanitation (v) Education, including Primary, Secondary and Adult Education and non-formal education (vi) Drinking Water (vii) Poverty Alleviation Programme (viii) Women and Child Development (ix) Social Welfare, including Welfare of the Handicapped and Mentally retarded and (x) Welfare of the Weaker sections and in particular of the Scheduled Castes and Scheduled Tribes

funds amounting to ₹ 13.96 crore to PRIs in five out of nine rural districts in the State (*Appendix 1.1*).

1.4 Formation of various committees

As per the provisions of APPR Act, 1994 various committees were to be constituted at ZPP, MPP and GP level. Functional committees³ were to be set up in every MPP and GP to monitor the progress of implementation of works and schemes. During the year 2016-17, functional committees were not constituted in respect of ten⁴ (53 per cent) out of 19 test-checked GPs.

The State was empowered to constitute a District Planning Committee (DPC) at district level. DPC formed was to ensure that each Panchayat in the district prepares a development plan for the financial year. This plan was to be consolidated into the District Development Plan and to be submitted to the Government for incorporation into the State plan. In 19 GPs of Mahabubabad, Medak, Rangareddy, Warangal, Warangal (Urban) and Yadadri Bhuvanagiri districts, it was observed that the Action Plans were not prepared in 14⁵ GPs.

1.5 Sources of funds

Resource base of PRIs consists of

- i. Own revenue generated by collection of tax⁶
- ii. Non-tax⁷ revenues
- iii. Devolution at the instance of State and Central Finance Commissions / Central and State Government grants for maintenance and development purposes
- iv. Other receipts⁸

Summary of receipts of PRIs for the years 2012-17 is given below. Receipts for the period 2012-14 pertain to the composite State whereas the receipts for the period 2014-17 pertain to the State of Telangana.

³ for agriculture, public health, water supply, sanitation, family planning, education and communication

⁴ Three GPs of Mahabubabad district, four GPs of Rangareddy, two GPs of Warangal, and one GP of Yadadri Bhuvanagiri

⁵ Three GPs of Mahabubabad district, one GP of Medak, six GPs of Rangareddy, two GPs of Warangal, one GP of Wanangal (Urban), and one GP of Yadadri Bhuvanagiri

⁶ Property tax, advertisement fee etc.,

⁷ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁸ Donations, interest on deposits etc.,

Table 1.2

(₹ in crore)

S.No.	Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
1	Own Revenue	976.50	736.50	16.96*	306.79	NA**
2	Assigned Revenue ⁹	154.36	457.24	10.97*	NA**	NA**
3	State Government Grants	343.97	350.59	19.60	56.14	49.00
4	GoI Grants	1,201.03	1,330.86	1,131.28	695.98	932.60
5	Other Receipts	84.18	NA**	NA**	107.61	NA**
Total		2,760.04	2,875.19	1,178.81	1,166.52	981.60

Source: Commissioner, Panchayat Raj and Rural Employment

* Data pertains to only 4 ZPPs and GPs of Adilabad district

** Data not made available to audit despite specific requests

It could be seen from above table that there was reduction in release of grants by State Government during 2016-17 compared to 2015-16. This was mainly due to non-release of certain grants¹⁰ during 2016-17. However, there was increase in GoI grants by 34 per cent during 2016-17 compared to 2015-16.

1.5.1 Financial assistance to PRIs

The quantum of financial assistance provided by State Government to PRIs by way of grants and loans for the years 2012-14 pertaining to the composite State of Andhra Pradesh and 2014-17 pertaining to State of Telangana is given below:

Table 1.3

(₹ in crore)

Details	2012-13	2013-14	2014-15	2015-16	2016-17 ¹¹	Total
Budget	329.27	328.89	203.18	819.04	962.16	2,642.54
Actual Release	158.10	164.57	30.30	752.12	957.99	2,063.08
Expenditure	98.20	114.85	30.30	622.29	957.99	1,823.63

Source: Commissioner, Panchayat Raj and Rural Employment

⁹ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

¹⁰ General component of State Finance Commission grants, Grants under 'Assistance to Best Gram Panchayats' and 'Strengthening of Gram Panchayat Administration'

¹¹ As per Grant Audit Register(PAG(A&E)) – Net Appropriation ₹ 96.16 crore, Expenditure ₹ 95.74 crore

1.5.2 Application of funds

Summary of expenditure incurred by PRIs for the years 2012-14 pertaining to the composite State of Andhra Pradesh and 2014-17 pertaining to the State of Telangana is given below:

Table 1.4

(₹ in crore)

S.No.	Type of expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
1	Revenue expenditure	1,405.50	3,562.39	134.15 [#]	615.18	527.78
2	Capital expenditure	1,033.47	1,756.98	32.22 [*]	780.73	1,155.49
Total		2,438.97	5,319.37	166.37	1,395.91	1,683.27

Source: Commissioner, Panchayat Raj and Rural Employment

[#] data pertains to only 4 ZPPs and GPs of Adilabad district

^{*} data pertains to only 3 ZPPs and GPs of Adilabad district

1.6 Recommendations of State Finance Commission (SFC)

As per Article 243-I of the Constitution and Section 235 of APPR Act, 1994, SFC has to be constituted once in five years to recommend devolution of funds from the State Government to Local bodies. State Government did not constitute SFC after Third SFC (2003). The Committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period from 2010 to 2015 also. During 2016-17, State Government released ₹ 4 crore to PRIs of Telangana State and entire amount was spent as of October 2017.

1.7 Recommendations of Central Finance Commission

1.7.1 Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) recommended assured transfer of funds to the local bodies for planning and delivering basic services¹². Grants are released under two components, *i.e.*, Basic grant and Performance grant in the ratio of 90:10.

Government of India released ₹ 908.99 crore during 2016-17. The entire amount was expended as of November 2017.

¹² including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds

1.8 Audit mandate

1.8.1 Primary Auditor

Director, State Audit (DSA), functioning under the administrative control of Finance Department, is the statutory auditor for PRIs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare annual Consolidated Audit and Review Report for presentation to the State Legislature. The DSA had two Regional Offices and nine district offices (30 district offices as on March 2017) in the State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities. Such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (June 2017) by DSA, audit of the accounts of 11 MPPs and 540 GPs were in arrears. DSA attributed delay to non-production of records by MPPs and GPs. As of March 2017, 2,150 Surcharge Certificates¹³ for ₹ 3.39 crore were issued, out of which ₹ 0.32 crore in respect of 119 cases were recovered.

The Consolidated Audit and Accounts Report for 2011-12 was tabled in the State Legislature on 31 March 2016. DSA stated (June 2017) that consolidation of Reports for the years 2012-13 and 2013-14 was under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/ diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment, etc.

1.8.2 Audit by Comptroller and Auditor General of India

Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) CAG with the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test-check of PRIs, a TGS Note was prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2016-17 was issued in September 2017.

Planning and conduct of audit

The Audit process commences with assessment of risk¹⁴ based on the following parameters:

- i. Expenditure incurred
- ii. Criticality/complexity of activities

¹³ Means the certificate by which the charge or the liability of a surchargee is communicated

¹⁴ of department/local body/scheme/programme etc.,

- iii. Priority accorded for the activity by Government
- iv. Level of delegated financial powers
- v. Assessment of internal controls and
- vi. Concerns of stakeholders.

Previous audit findings were also considered in this exercise. Based on this risk assessment, frequency and extent of audit was decided and an annual audit plan was formulated to conduct audit. During 2016-17, 38 PRIs (2 ZPPs, 17 MPPs and 19 GPs), falling under the department of Panchayat Raj and Rural Development, were covered in audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2016 was tabled in the State Legislature on 27 March 2017.

1.9 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) containing audit findings were issued to the head of the unit concerned. Heads of offices and next higher authorities were required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs were also discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of September 2017, 30 IRs containing 486 paragraphs pertaining to the period up to 2016-17 were pending settlement, as given below. Of these, initial replies had not been received in respect of 25 IRs and 395 paragraphs.

Table 1.5

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even initial replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Upto 2015-16	11	184	8	138
2016-17	19	302	17	257
Total	30	486	25	395

Lack of action on IRs was fraught with the risk of serious financial irregularities pointed out in these reports remaining unaddressed.

The Audit Reports on Local Bodies have been presented to the State Legislature since March 2008. Total seven Audit Reports (2005-06 to 2013-14 for erstwhile State of Andhra Pradesh excluding 2010-11 to 2011-12) were presented in the State Legislature of Andhra Pradesh and two for the years 2014-15 and 2015-16 in the State Legislature of Telangana. However, discussions have not taken place in the State Legislature since 2008. Explanatory notes were not received to any of the paragraphs and reviews included in the above Audit Reports.

Section B

Accountability framework and Financial Reporting issues

1.10 Accounting framework

1.10.1 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local body ombudsman system. Commissioner, Panchayat Raj and Rural Employment stated (October 2017) that ombudsman system was not adopted in Telangana. However, State Government amended Lokayukta Act to take up complaints against the functionaries and elected representatives of PRIs. Number of cases registered district wise, and their disposal was, however, not furnished by CPR&RE despite specific request.

1.10.2 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. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and Transparency (SSAAT).

Post bifurcation of the State of Andhra Pradesh into Telangana and Andhra Pradesh with effect from 2 June 2014, the existing Society was retained with Telangana State. SSAAT conducted Social Audits in 343 Mandals in respect of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Social Security Insurance and Scholarships scheme, etc., during 2016-17. Functioning of society during 2016-17 showed the following:

- i. State Government should facilitate conduct of Social Audit of the works taken up under the Act in every Gram Panchayat at least once in six months, *i.e.*, twice a year. The Social Auditors are required to audit 100 *per cent* verification of muster rolls and work sites. During the year 2016-17, SSAAT had carried out Social Audits in respect of 8,110 GPs (out of 8,684 GPs) in the State. However, no GP was covered twice a year. SSAAT attributed (June 2017) the shortfall in coverage of audit to requests for postponement of audits on the grounds of Elections, implementation of State sponsored programme *Haritha haram*¹⁵, dearth of resource persons, etc.
- ii. As per State Social Audit Rules, the District Vigilance Cell is responsible to take follow-up action on the social audit observations immediately (within three days) on conclusion of the mandal social audit public hearing. During the year 2016-17, SSAAT found deviations amounting to ₹ 203.05 crore, of which ₹ 172.02 crore were accepted (85 *per cent* of total deviations) by the

¹⁵ Tree planting programme of State Government

Presiding Officers¹⁶ concerned. Orders for recovery were issued in respect of deviations of ₹ 3.93 crore only. Against this, only ₹ 32,000 was recovered as of March 2017.

1.11 Submission of Utilisation Certificates

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that Utilisation Certificates (UCs) should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI.

During 2016-17, State Government forwarded UCs to GoI for the total releases of ₹ 908.9 crore in respect of Fourteenth Finance Commission grants. In 10 PRIs¹⁷ (26 per cent) out of 38 test checked during 2016-17, UCs amounting to ₹ 1.49 crore were yet to be furnished as of March 2017. Besides, UCs for grants related to Twelfth and Thirteenth Finance Commission, Backward Region Grant Fund, IHHL¹⁸, MPLADS¹⁹ for ₹ 18.49 crore were also pending to be submitted by 25 test-checked PRIs.

1.12 Internal Audit and Internal Control System of PRIs

As per the information furnished (October 2017) by CPR&RE, no internal audit system was adopted. As per Section 44(2)(a)(b) of APPR Act, 1994 the Government should appoint District Panchayat Officer, Divisional Panchayat Officer and Extension Officers as Inspecting Officers for overseeing the operations of Gram Panchayat (GP). Records of 19 GPs showed that in respect of 10²⁰ GPs inspections were not conducted (2013-14 to 2016-17). Cases of non-remittances of library cess, discrepancies between treasury/cash book and PRIASoft, improper maintenance of registers, non-remittance of statutory deductions etc., were reported in the inspection reports of other PRIs.

1.13 Maintenance of Records

Records such as Cash book, Asset Register, Advance Register, Stock Registers etc., are to be maintained by ZPPs, MPPs as per the provisions of APPR Act, 1994. GPs are governed by GP Accounts Manual of Panchayat Raj and Rural Development Department. Records of 38 PRIs showed that cash book

¹⁶ District Programme Officer nominates a senior officer not less than the rank of the Additional District Programme Coordinator for presiding over the public hearing

¹⁷ 3 GPs of Mahabubabad district, 1 GP of Medak, 1 GP of Nalgonda, 2 GPs of Rangareddy, 2 GPs of Warangal and one GP of Warangal(Urban)

¹⁸ Individual House Hold Latrines

¹⁹ Members of Parliament Local Area Development Scheme

²⁰ Mahabubabad (Shanigapuram), Medak (Rudraram), Nalgonda (Nereda), Rangareddy (Abdullapur, Aziznagar, Mokila, Turkayamjal), Warangal (Ghanpur Stn, Wardhannapet), Warangal (urban) (Peddapendyala)

was not properly maintained²¹ in 15²² PRIs (39 per cent). In ten²³ PRIs (26 per cent) stock registers were not maintained.

1.13.1 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. It was seen that annual physical verification of stores and stock was not conducted in respect of 9²⁴ PRIs (24 per cent) out of 38 PRIs test checked during 2016-17.

1.13.2 Non-reconciliation of departmental figures with treasury

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent draws. Reconciliation in respect of 15²⁵ PRIs (39 per cent) out of 38 PRIs test checked was pending from 2013-14.

1.13.3 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility and recovery for any loss. State Government had ordered (February 2004) the departmental Secretaries to review cases of misappropriations on a monthly basis. The Chief Secretary to Government was to review these cases once in six months with all the Secretaries concerned. Misappropriation cases noticed by Director, State Audit which

Table 1.6

(₹ in lakh)

Unit	Up to 2016-17 ²⁶	
	No. of cases	Amount
ZPPs	0	0
MPPs	69	68.58
GPs	1094	532.67
Total	1163	601.25

Source: Director, State Audit.

²¹ Certificate of the number of pages of cash book was not recorded in the first page; overwriting without attestation by competent authority, monthly closing and reconciliation were not done by Drawing and Disbursing Officer etc.,

²² 1 GP of Mahabubabad district, 1 GP of Medak, 6 GPs of Rangareddy, 2 GPs of Warangal, 1 MPDO of Medchal, 2 MPDOs of Nalgonda, 1 MPDO of Warangal, 1 MPDO of Warangal Rural

²³ 1 GP of Medak district, 1 GP of Nalgonda, 3 GPs of Rangareddy, 1 GP of Warangal, 1 GP of Yadadri Bhuvanagiri, 1 MPDO of Nalgonda, 1 MPDO of Rangareddy, 1 MPDO of Warangal

²⁴ 1 GP of Medak district, 2 GPs of Nizamabad, 1 GP of Warangal, 1 GP of Warangal(Urban), MPDOs of Geesukonda, Moinabad, Qutbullapur, Ramannapet

²⁵ 2 GPs of Mahabubabad district, 1 GP of Medak, 6 GPs of Rangareddy, 2 GPs of Warangal, 2 GPs of Yadadri Bhuvanagiri, MPDOs of Geesukonda, Qutbullapur

²⁶ no information has been provided for the misappropriation cases for the year 2016-17

were pending from 2005-06 for disposal as of March 2017 are given in the Table 1.6.

1.14 Maintenance of Accounts by PRIs

PRIs maintain accounts on cash basis. A Model Accounting System was prescribed by GoI in consultation with the Comptroller and Auditor General of India. State Government issued orders (September 2010) for adopting this format using PRIASoft, *i.e.*, Panchayat Raj Institutions Accounting Software developed by National Informatics Centre (NIC).

Government confirmed (September 2014) that online accounting was completed in all the PRIs. However, discrepancies in annual accounts maintained manually and PRIASoft were noticed in respect of 22 PRIs²⁷ (58 *per cent*) out of 38 PRIs test checked in 2016-17.

1.15 Issues related to AC/DC Bills

As per Government orders²⁸, an amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bill for the expenditure incurred, to the Accountant General (Accounts & Entitlements) with supporting vouchers within one month of drawal of such amount.

An amount of ₹ 3.42 crore was drawn on AC bills²⁹ by PRIs in the State and DC bills were pending for the entire amount as of November 2017.

1.16 Maintenance of database and the formats therein on the finances of PRIs

State Government had released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹ 67.37 crore³⁰ to Commissioner Panchayat Raj of the composite State of Andhra Pradesh for creation of database on finances of PRIs. Of this ₹ 14.35 crore was allocated to Telangana State and transferred to Commissioner, Panchayat Raj, Telangana. Commissioner stated (November 2017) that an amount of ₹ 3.81 crore was available under this, and no further funds were received. Details of utilisation of these funds during 2016-17 were not furnished by CPR&RE despite specific request.

²⁷ 3 GPs of Mahabubabad district, 7 GPs of Rangareddy district, 1 GP of Yadadri Bhuvanagiri district and MPDOs of Mahaboobabad, Quthbullapur, Chityala, Nampally, Ramannapet, Hayathnagar, Samshabad, Keesara, Dharmasagar, Geesugonda, Choutuppal mandals

²⁸ GO Ms. No.285 Finance (TFR-II) Department dated 15 October 2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18 (d) and GO Ms. Nos. 391 and 507 of April/May 2002 of Finance Department

²⁹ As per the information available in the office of Accountant General (Accounts and Entitlements) since 2007-08 to 2015-16 ₹ 3.32 crore, 2016-17 ₹ 0.10 crore

³⁰ including interest

