

Chapter V: Financial resources of Panchayati Raj Institutions

Devolution of financial resources was critical for Panchayati Raj Institutions (PRIs) for the successful implementation of devolved functions. Finances of PRIs comprised their own revenues, assigned revenues and transfers from State and Central Governments. The Zilla Panchayats (ZPs) did not have any source of own revenue and depended on Government grants for even their establishment expenditure. Full potential of collecting own revenues was not tapped by the Village Panchayats (VPs). Non-revision of property tax, inefficient collection mechanism and inaction on arrears affected their financial position. There were delays in the release of Central Finance Commission (CFC) grants and their utilization by the PRIs was not monitored effectively. Further, the trend of release of State Government grants was uneven. Delays in the constitution of State Finance Commissions (SFC) and inaction on their recommendations by the Government, rendered the SFC mechanism redundant and hindered the fiscal empowerment of PRIs. ZPs did not prepare the budgets and the budgets of the VPs were unrealistic. Model Accounting System/software applications (MAS based PRLASoft and e-gramswaraj) were not adopted in ZPs and were adopted in the VPs only for CFC grants. Majority of the VPs were not able to meet even their establishment expenditure out of their own resources which increased their dependence on Government grants.

Successful implementation of devolved functions and delivery of services by PRIs is dependent upon the availability of adequate financial resources with them. The resources of PRIs can be broadly categorized as (i) Own revenues, which PRIs mobilize through their power to levy and collect taxes and fees, (ii) Assigned revenues, which accrues to the PRIs as a certain percentage of a tax levied and collected by the State Government, and (iii) State and Central Government grants including CFC grants.

5.1 Sources of revenue

Own-revenues (tax and non-tax revenues) assigned revenues and Government transfers including Finance Commission grants comprised the sources of revenue for PRIs in Goa. Composition of sources of revenue of PRIs for the period from 2016-17 to 2020-21 is summarized in **Table 5.1** and depicted in **Chart 5.1**.

Table 5.1: Sources of revenues of PRIs

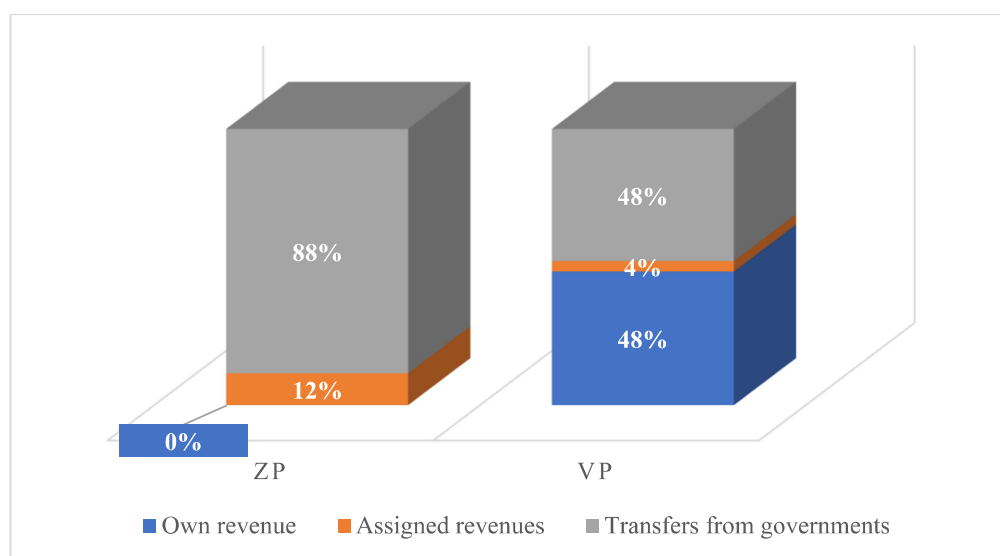
(₹ in crore)

Sl. No.	Year	ZPs					VPs				
		Own revenue	Per-centage of total revenue	Assigned revenue	Govt grant*	Total	Own revenue	Per cent of total revenue	Assigned revenue	Govt. grant*	Total
1	2016-17	0.00	0.00	8.00	16.13	24.13	61.86	44.94	14.00	61.78	137.64
2	2017-18	0.00	0.00	8.00	25.81	33.81	70.26	54.37	14.00	44.97	129.23
3	2018-19	0.00	0.00	0.00	21.23	21.23	63.30	49.19	0.00	65.39	128.69
4	2019-20	0.00	0.00	0.00	25.61	25.61	81.86	59.90	0.00	54.81	136.67
5	2020-21	0.00	0.00	0.00	33.90	33.90	83.77	39.19	0.00	129.98	213.75
	Total	0.00		16.00	122.68	138.68	361.05		28.00	356.93	745.98

(Source: Information made available by Directorate of Panchayat)

* Includes grants from both State Government and Central Government

Chart 5.1: Composition of revenues of PRIs for the period 2016-21



(Source: Information provided by Directorate of Panchayat)

It may be seen from the above chart that Government grants comprised 88 per cent of total revenues during the period 2016-21 and from 2018-19 onwards, the ZPs were fully dependent on Government grants alone for their functioning.

Own revenues of VPs (48.40 per cent) were almost equal to Government grants (47.85 per cent) during this period. The share of Government grants increased from 44.89 per cent to 60.81 per cent, while the share of own revenue decreased from 44.94 per cent to 39.19 per cent. Audit observations on sources of revenue of PRIs were as below.

5.2 Own revenues of PRIs

Article 243H of the Constitution *inter alia* provided that the Legislature of a State may authorise PRIs to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits as may be specified in the

law. Necessary provisions have been made in the Goa Panchayat Raj Act, 1994 (GPRA) for devolution of sources of revenue in respect of PRIs.

5.2.1 Own revenues of Zilla Panchayats

The GPRA did not make any provision to enable collection of taxes by ZPs. However, Section 166 of GPRA enabled them to constitute their own fund with contributions *inter alia* from non-tax revenues such as fees, fines and penalties levied and collected and rents from its properties.

Audit observed that the ZPs did not own any assets from which rents/fees could be collected other than insignificant amounts from RTI fees, tender form fees and interest on bank balances. This resulted in their complete dependence on grants from the Government for all activities including establishment expenditure.

The Secretary, Panchayats acknowledged the observation during the Exit Conference (June 2022).

5.2.2 Own revenues of Village Panchayats

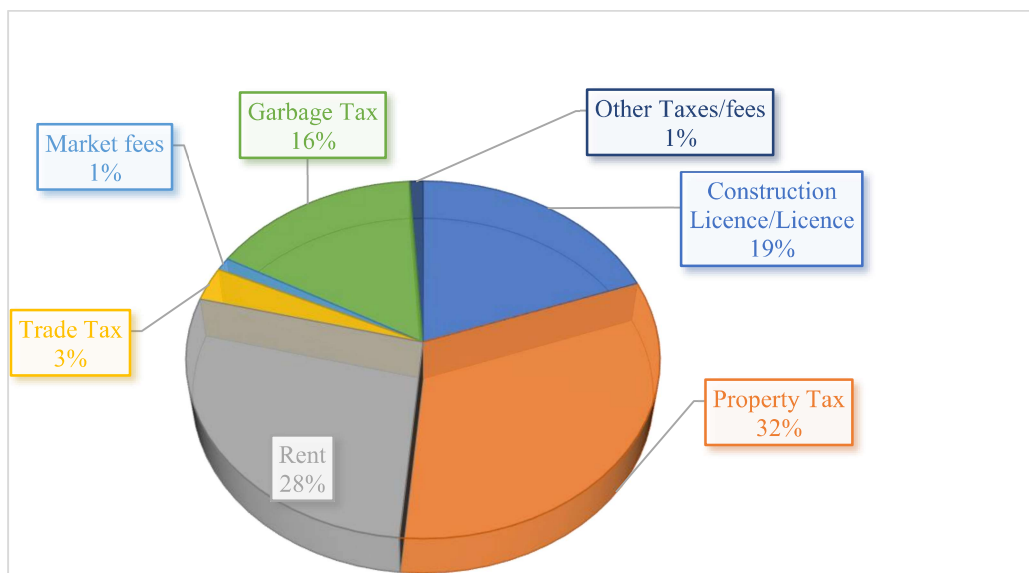
Section 153 of the GPRA enabled the VPs to impose mandatory property tax (tax upon buildings and tax on lands) and 15 discretionary rates/taxes¹. The rules made thereunder provided for the imposition and recovery of taxes, details of procedures, schedule of rates, *etc.*

Audit observed that all the 16 test-checked VPs levied the mandatory property tax only upon buildings but not on lands. Only eight out of the 14² discretionary taxes/rates were being levied in these VPs. Composition of own revenues during 2016-17 to 2020-21 in the test-checked VPs is depicted in **Chart 5.2**.

¹ i. Water rate for supply of water for drinking and other purposes; ii. Tax on entertainment other than cinematograph shows; iii. Tax on vehicles other than motor vehicles; iv. Tax on advertisement and hoarding; v. Pilgrim fee on persons attending the jattras, festivals; vi. Market fee on persons who expose their goods for sale in any marketplace; vii. Fee on the registration of cattle brought for sale in any marketplace; viii. Fee on buses and taxies and auto-stands; ix. Fees on grazing cattle in the grazing lands, x. Lighting tax; xi. Drainage tax; xii. Tax on profession, trades, calling and employment; xiii. Fees for sale of goods in melas, fairs and festivals; xiv. Garbage disposal tax; and xv. Octroi other than on petroleum products (not levied)

² Out of 15 discretionary taxes, octroi was abolished after adoption of GST.

Chart 5.2: Composition of own revenues of test-checked VPs³



(Source: Income and Expenditure Statements of 16 test-checked VPs for the period 2016-21)

Property tax, rent from own properties, construction licence fees and garbage tax were the primary sources of revenue of test-checked VPs. Own revenue of test-checked 16 VPs from different sources was as shown in the **Table 5.2** below.

Table 5.2: Own revenue of test-checked VPs for the period 2016-21

(₹ in crore)

Type of Revenue	2016-17	2017-18	2018-19	2019-20	2020-21	Total	Percentage to total revenue
Construction Licence/Licence	1.76	1.64	2.03	1.61	1.45	8.49	19.39
Property tax	2.42	2.58	3.00	3.04	2.97	14.01	32.00
Rent	1.91	3.21	2.52	2.79	1.64	12.07	27.58
Trade tax	0.19	0.26	0.30	0.28	0.39	1.33	3.24
Market fees	0.09	0.13	0.09	0.13	0.07	0.51	1.17
Garbage tax	1.14	1.31	1.41	1.62	1.44	6.92	15.81
Other Taxes/fees	0.07	0.08	0.11	0.10	0.08	0.44	1.01
Total	7.58	9.21	9.46	9.57	8.04	43.86	

(Source: Information compiled from annual accounts of 16 VPs)

The revenues of VPs were showing an increasing trend from the year 2016-17 to 2019-20. However, individual sources of revenues were showing up and down trend during the entire audit period as compared to respective previous year figures.

Good practice: Life jacket hiring fees was collected by Collem VP, the average annual collection being ₹ 80.78 lakh during the audit period. Taking advantage of its location near the popular tourist destination of Dudhsagar waterfall this VP generated additional income through this innovative service.

³ Percentage of total tax/fees collections of test-checked 16 VPs.

5.2.3 Efficiency of revenue collection mechanism

Efficient collection of revenues is necessary for attaining self-sufficiency in operations of the PRIs, *i.e.* execution of their functions and delivery of services. The GPRA and the Goa Panchayat Raj (Recovery of taxes, fees and other dues) Rules, 1999 and orders of Government provided the mandate for imposition and collection mechanism for taxes and other dues. Shortcomings in the imposition and collection of revenues were as below.

5.2.3.1 Non-revision of property tax rates

Property tax constituted nearly one-third of the VPs' own tax revenues and its periodical revision, correct assessment and efficient collection were important for the financial health of VPs. The GPRA provided (Section 153 of GPRA) that the VPs shall revise the rate of property tax once in every three years by a minimum increase of 10 *per cent* thereon. Out of the 16 test-checked VPs, four VPs revised the rates of property tax and seven did not revise the rates for periods ranging from three to 27 years. Five VPs⁴ did not provide the details of revision.

5.2.3.2 Non-imposition of taxes on garbage

Rule 15 of Solid Waste Management Rules, 2016, provided that local bodies may collect user fee for solid waste management from waste generators. It was expected to recover the expenditure on the services provided through collection of taxes. Though garbage collection services were provided by all the 16 test-checked VPs, no user fees were imposed by 11 out of the 16 VPs. The expenditure on garbage collection and solid waste management was met out of the panchayat fund or Government grants (₹ 11.80 crore to all VPs during 2016-21 provided under 'The Goa Panchayats (Grants to Tackle Garbage Menace) Scheme').

5.2.3.3 Inefficient recovery mechanism

Rule 9 of General Financial Rules, 2017, *mutatis mutandis* provides to ensure that all receipts and dues have to be correctly and promptly assessed, collected and duly credited to the fund. Test-check of revenues by 13 test-checked VPs⁵ and status of demands, collections and arrears were as shown in **Table 5.3**.

⁴ 1. Reis-Magos; 2. Taleigao; 3. Mulgao; 4. Wadi-Talaulim; and 5. Xeldem

⁵ Three VPs *i.e.* Colem, Sancordem and Xeldem did not furnish the information of arrears.

Table 5.3: Arrears of major taxes in test-checked 13 VPs

(₹ in crore)

Type of tax	Arrear (as on March 2020)	Current Demand (2020-21)	Total (2020-21)	Collection (2020-21)	Arrear (as on March 2021)	Percentage of arrears to total demand
1	2	3	(2+3) =4	5	(5-4) = 6	(6/4*100) =7
Property tax	5.29	2.70	7.99	2.86	5.13	64.21
Garbage tax	1.60	1.13	2.74	1.24	1.49	54.38
Advertisement tax	0.17	0.06	0.24	0.04	0.20	83.33
Trade tax	0.57	0.39	0.96	0.36	0.60	62.50
Total	7.63	4.28	11.93	4.50	7.42	

(Source: Data compiled from information furnished by 13 VPs out of 16 test-checked)

Audit noticed that Section 154 of GPRA read with The Goa Panchayat Raj (Recovery of taxes, fees and other dues) Rules, 1999, provided the mandate for issue of bills (Rule 5), demand notice (Rule 6) and issue of warrant (Rules 7, 8 and 9) for recovery of dues. In the test-check of VPs for recovery of three taxes (Property tax, Advertisement/signboard tax and Trade tax), it was noticed that issue of bills and demand notices were not followed up by the issue of warrants where necessary. This resulted in poor recovery of revenues as seen from the fact that arrears of major taxes ranged from 54.38 per cent to 83.33 per cent of the total demand at the year ending 2021.

Thus, non-utilization of executive authority mandated in the rules to enforce collection of revenues resulted in poor recovery of revenues.

While confirming the audit observation the DoP stated (March 2022) that instructions would be issued to VPs for revision of property tax, levy of garbage tax, etc. and the VPs would be instructed to find out reasons for arrears and initiate remedial action. The Secretary, Panchayats acknowledged the observation during the Exit Conference (June 2022) and stated that corrective measures would be taken. At the instance of Audit, the DoP issued (August 2023) instructions to the VPs to revise the taxes timely and collect garbage tax according to the bye-laws adopted.

The ZPs did not have any source of own revenue and their dependence on Government grants for even their establishment expenditure severely affected their autonomy and curtailed their role. Full potential of collecting own revenues was not tapped by the VPs. Non-revision of property tax, inefficient collection mechanism and inaction on arrears affected the financial position of PRIs.

Recommendation 6: The Government may review the status of devolution of finances to ZPs and take action to empower them through assignment of own sources of revenue. VPs must undertake a detailed review of their finances in terms of tax potential, additional resource mobilization, rationalization of tax structures, etc. in addition to strengthening their revenue collection machinery to reduce the revenue arrears.

5.3 Fiscal transfers to PRIs

Share of fiscal transfers from CFC and State Government grants in the total revenues of ZPs ranged from 67 per cent to 100 per cent and from 35 per cent to 61 per cent in VPs during the period 2016-17 to 2020-21. Audit observations on sanction, release and utilisation of grants are detailed below.

5.3.1 Non-utilization of Fourteenth Finance Commission Grants

The Fourteenth Finance Commission (FC XIV) recommended assured transfers in the form of Basic Grants (BG) and Performance Grants (PG) to PRIs for effective planning and delivery of basic services within the functions assigned to them. The FC XIV sanctioned a BG of ₹ 120.39 crore during the period 2015-16 to 2019-20, which was fully transferred to the VPs by the DoP. The Fifteenth Finance commission (FC XV) sanctioned grants under two categories of tied (₹ 37.50 crore) and untied grants (₹ 37.50 crore) in the year 2020-21, which were released to the PRIs. Untied grants of ₹ 11.00 crore were also sanctioned during the period 2021-22.

Details of fiscal transfers to PRIs under the Finance Commission grants for the period 2015-21, and the actuals against them is given in **Table 5.4** below.

Table 5.4: Finance Commission grants sanctioned and released

(₹ in crore)

Year	Finance Commission Grants sanctioned to PRIs			
	Sanctioned		Released	
	BG*	PG*	BG*	PG*
FC XIV				
2015-16	14.44	0.00	14.44	0.00
2016-17	20.00	2.62	20.00	2.62
2017-18	23.10	2.97	23.10	2.97
2018-19	26.73	3.37	26.73	0.00
2019-20	36.12	4.41	36.12	0.00
Total	120.39	13.37	120.39	5.59
FC XV				
	tied⁶	untied	tied	untied
2020-21	37.50	37.50	37.50	37.50

(Source: Information provided by the DoP)

* BG: Basic Grants; PG: Performance Grants

⁶ According to FC XV report for the period 2020-21; 50 per cent grants to rural local bodies were 'Untied Grants' (which could be utilised for any function) and remaining 50 per cent grants were 'Tied Grants' for Sanitation and Water Supply.

- Out of the ₹13.38 crore sanctioned as PG, ₹ 7.79 crore was not released by GoI during the years 2018-19 and 2019-20 to the State Government for reasons not available on record.
- Out of the total release of ₹ 125.98 crore to VPs under FC XIV up to 2019-20, an amount of ₹ 28.02 crore was unutilized (March 2021). While confirming the non-utilization of grants, DoP had informed (March 2022) that Ministry of Panchayati Raj (MoPR) had extended (March 2021) the time limit for utilization till March 2022. Later, the time for utilization of the grants by VPs was extended (June 2023) by the DoP till March 2024 on the basis of clarification (May 2023) from MoPR.
- As a result of non-compliance with the requirement of releasing the grants under FC XIV to PRIs within 15 days of receipt from Government of India (GoI), the State Government had to pay an interest of ₹ 1.47 crore for delays of 07 to 157 days to VPs during the period 2015-20. Similar delay of 07 to 81 days was noticed in release of grants under FC XV and interest of ₹ 72.51 lakh was paid by the State Government as shown in **Table 5.5** below.

Table 5.5: Delay in release of grant and interest paid by the State Government

(₹ in lakh)

Year	Type of Grant	Instalment	Amount	Delay (days)	Interest paid
<i>FC XIV</i>					
2015-16	BG	I	722.00	157	47.00
2016-17	BG	II	1000.00	21	3.59
	PG	NA	262.00	18	0.84
2017-18	BG	I	1155.00	19	3.75
	BG	II	1155.00	07	1.32
2018-19	BG	I	1336.50	13	2.58
	BG	II	1336.50	113	22.34
2019-20	BG	I and II	3612.00	154	66.23
Total (A)			10579.00		147.65
<i>FC XV</i>					
2020-21	tied	I	1875.00	78	29.01
	united	I	1875.00	81	30.13
	tied	II	1875.00	07	2.60
	united	II	1875.00	32	10.77
Total (B)			7500.00		72.51
Total (A + B)			18079.00		220.16

(Source: Information provided by Directorate of Panchayat)

The Department accepted (March 2022) that the funds were not released in time.

- Third-party audit of FC XIV grants released to PRIs was recommended in the guidelines. But no audits were conducted for assurance regarding utilization of funds for the purposes for which they were sanctioned.

Delayed release of Finance Commission grants by the State Government had an impact on certainty of flow of funds, adversely affecting the planning and utilization of funds by VPs.

Recommendation 7: The Government may review the reason for delayed release of Central Finance Commission grants and ensure their timely release.

5.3.2 State Government grants to PRIs

The GPRA (Section 160) provided for release of grants to the respective Local Bodies by the Government of Goa. In the absence of principles of distribution of finances recommended by the State Finance Commission these grants were allocated to the PRIs by the Government as deemed fit. Accordingly, grants were released for salaries, honoraria of elected authorities, development works, execution of functions like solid waste management and special grants (under notified schemes to financially weaker VPs). Details of the grants are given in **Table 5.6** below.

Table 5.6: Grants sanctioned and released by the State Government

(₹ in crore)					
Type of grant	2016-17	2017-18	2018-19	2019-20	2020-21
Zilla Panchayats					
Rural infrastructure grant	10.00	10.00	14.20	9.60	16.00
Administration grant	4.50	9.00	9.46	9.60	16.00
Grant to compensate in lieu of octroi	8.00	8.00	0.00	0.00	0.00
Total	22.50	27.00	23.66	19.26	32.00
Village Panchayats					
Matching grant	5.85	5.21	6.10	5.13	5.00
Grant to compensate in lieu of Octroi	14.00	14.00	0.00	0.00	0.00
Salary grant	5.94	5.97	6.03	5.65	9.96
Garbage grant	1.90	1.91	4.61	1.39	1.95
Weaker panchayat grant	5.19	8.66	9.97	5.89	13.50
Development grant	11.77	5.61	14.86	13.45	20.84
Special component plan for SCs (VPs and ZPs)	1.64	1.04	1.19	1.60	1.95
Special component plan for STs (VPs and ZPs)	7.82	6.20	7.70	6.39	8.89
Total	54.11	48.60	50.46	39.50	62.09

(Source: Appropriation accounts of Government and information provided by the DoP for the year 2020-21)

Existence of multiple grants and uneven trend of disbursement was result of absence of principles governing the grants-in-aid to the panchayats from the Consolidated Fund of the State. Such principles, expected to be recommended by the State Finance Commission were not made as the Commission was redundant as discussed in **Paragraph 5.5**.

5.4 Assigned revenues

Article 243H of the Constitution *inter alia* provided that the States may make provision for assignment of revenues to PRIs, levied and collected by the State Government. Specific provision for assignment of certain revenues was made for ULBs in the State but similar provision was however, not made in the GPRA for PRIs.

On behalf of the PRIs, the Government was collecting additional Value Added Tax (VAT) @ two *per cent* on petrol and diesel and sharing the proceeds with PRIs *in lieu* of octroi. The Government had compensated ₹ 44.00 crore (13.50 *per cent*) out of total revenue of the PRIs (₹ 324.81 crore) *in lieu* of octroi for the period 2016-18. Upon the implementation of Goods and Services Tax (GST) in place of VAT w.e.f. 01.07.2017, the Government decided to discontinue (February 2019) the collection and assignment of octroi.

Audit observed that the VAT on diesel and petrol continued to be levied as they were not covered under the GST (December 2021). However, the assignment was stopped to PRIs without compensating them through any other means. Considering the VAT collected on petrol and diesel in 2018-19, the PRIs were deprived of ₹ 8.39 crore⁷ annually. Failure of the State Government to assign an alternative source of revenue in place of the discontinued octroi was a setback to the PRIs.

The Secretary, Panchayats, while acknowledging the observation during the Exit Conference (June 2022), stated that the matter would be referred to the SFC for their recommendations.

Thus, an important source of revenue to the PRIs was discontinued, with no alternative source being identified.

Recommendation 8: The Government may identify alternative revenue streams for assignment to PRIs in place of the discontinued additional VAT on petrol and diesel.

5.5 State Finance Commission

State Finance Commissions (SFCs) were envisaged to reduce intra-state disparities through their recommendations on principles governing the distribution and assignment of revenues to PRIs and fiscal transfers from Governments. The SFCs consider factors like area, population, density of population and economic factors for recommending the principles of distribution of resources. Article 243-I of the Constitution provided for setting up a SFC within one year from the commencement of the Constitutional Amendment Act, and thereafter, at the expiry of every fifth year.

The Government made provisions for SFC (Section 199 of GPRA) and constituted (April 1999) the first SFC with three members which submitted its Report in June 1999. The second SFC (SSFC) was constituted in August 2005 and the third in December 2016. Audit observed that:

- Government constituted only three SFCs during the period 1999 to 2021 as against the six due.
- Reports of the first and second SFC were pending to be submitted to the Legislature along with Action Taken Reports. The first SFC made recommendations *inter alia* for transfer of state's own revenues and share of Central taxes to ZPs (27 *per cent*) for transferred activities. Devolution from

⁷ Two *per cent* of VAT collected on petrol and diesel (two *per cent* of ₹ 671.26 crore = ₹13.42 crore). The share of PRIs was 62.50 *per cent* of this = ₹ 8.39 crore.

Annual State Plan to PRIs (13 per cent) was also recommended against transferred activities, which were however rejected by the Government with a reason that State's tax revenue was under pressure and funds would be transferred to ZPs as per their requirements. The Commission also observed that transferring resources without transferring functions and responsibilities served no purpose. The second SFC *inter alia* undertook the task of mapping the devolved functions with activities, to facilitate their implementation and made recommendations on devolution of finances according to the programmes/schemes executed by different tiers. The Committee⁸ constituted (July 2010) to consider the implementation of recommendations did not submit its report for more than 11 years (July 2022), rendering the work of both the SFCs infructuous.

- The third SFC was constituted (December 2016) after a delay of more than six years. However, the Commission did not commence functioning due to the lack of infrastructure support, like office space, *etc.* from the Government.

The SFCs made several recommendations regarding functional and financial devolution as well as manpower in PRIs to enable them to function effectively as institutions of self-governance. However, pending decision/action on the recommendations of the SFCs, the devolution of functions through the GPRA was not accompanied by further measures to ensure actual transfer of all devolved functions and left the PRIs without much operational scope as observed⁹ by the second SFC. Recommendations for financial empowerment and provision of staff to PRIs which were linked to the devolution of functions were also not acted upon.

One of the pre-conditions for release of grants from the year from 2022-23 under the FC XV was that the states shall issue notification for the constitution of the SFC in such a way so as to have the recommendations available for laying in the State Legislature on or before March 2024. The Government notified the reconstitution of third State Finance Commission in January 2022. It was specified in the notification that the Chairman and the Members shall initially hold full time office for a period of one year and submit its report before expiry of its term.

The Secretary, Panchayats, acknowledged the observation during Exit Conference (June 2022) and stated that the reconstituted third SFC has commenced functioning and is expected to prepare its report by October 2022. However, it was further informed (August 2023) by DoP that SFC has submitted its interim report.

Recommendation 9: The State Government must constitute SFCs as per the timeframe prescribed in the Constitution. Recommendations of the SFC may be considered and accepted recommendations implemented in a time-bound manner.

⁸ A Committee was constituted by the Government (July 2010) of five members for examination of the report of the SSFC. The composition of the Committee was changed in February 2013. The report of the Committee was awaited as of July 2022.

⁹ Paragraphs 13.7 and 13.8 of the second State Finance Commission Report

5.6 Budget, accounts and audit

Article 243J of the Constitution provided that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the PRIs and audit of such accounts. Adequacy of provisions and their compliance related to preparation of budget, accounts and audit was verified in Audit and the following observations are made.

5.6.1 Budgets in PRIs

5.6.1.1 Preparation of budget in PRIs

- Section 188 of GPRA provides for the preparation of annual budgets by ZPs before the 10th of March every year. Audit observed that neither of the ZPs prepared any budget during any of the years from 2016-17 to 2020-21. Audit noticed that the panchayat of South Goa Zilla Panchayat (SGZP) had resolved (May 2016 and March 2017) that the Chief Accounts Officer should prepare the budget but the same was not complied with till August 2023. In the absence of any source of revenue, the ZPs were dependent on Government grants (administration, development grants and assigned revenues till 2017-18) and received grants amounting to ₹ 124.22 crore during the period 2016-21. The ZPs utilized these grants without an approved budget which was a major violation of section 188 of GPRA. Also, there was no assurance that the expenditure out of the grants was as per a financial plan/ approved priorities mandated by the elected panchayats.

At the instance of Audit, DoP issued an instruction (August 2023) to ZPs to prepare the budgets and submit them to the Government.

- The VPs were required (Section 182 of GPRA) to prepare their budgets before the 10th of March every year. Audit observed that the GPRA (Section 182 (1) and Rule 25 (i) of Goa Panchayats (Accounts, Audit and Custody of Funds) Rules, 1995 made thereunder were not in line with each other as the GPRA required the VPs to prepare the budget between 1st February to 10th March but the prescribed date for submission of budgets to the BDO, as given in the Rule was 1st March.
- In the test-checked 13 VPs¹⁰ a total of 65 budgets (13 VPs for 5 years) were prepared during the period 2016-21. However, 42 of them provided the date of preparation of budget. The delay in preparation of budgets and submission to BDOs was calculated with respect to last date of submission of the budget to the BDO *i.e.* 1st March. It was found that 10 out of 42 budgets were not prepared in time with delays ranging from 04 to 364 days. Thirty-one out of forty-two budgets were not submitted to BDOs in time with delays ranging from 01 to 102 days. The VPs were also required to submit their budgets to ZPs. However, this was not complied with except in 2020-21, when 09 out 191 VPs submitted their budgets to the respective ZPs.

¹⁰ Three VPs of Assagaon, Chodan-Madel and Sancorde did not furnish information.

While accepting (March 2022) the Audit observations, the DoP assured that instructions would be issued for submission of budgets to ZPs in time. Further, at the instance of Audit, an instruction (August 2023) was issued by DoP to VPs to ensure that budgets are prepared and submitted to ZPs in time.

5.6.1.2 Unrealistic budgets

The VPs prepared their budgetary revenue estimates based on expected own revenues and allocation of funds by the Government and Finance Commission grants. The expenditure estimates were based on capital, O&M and other expenditure for carrying out the activities/services required of them.

Variance in the estimates of receipts and expenditure was analyzed in the test-checked 16 VPs for the period 2016-17 to 2020-21 and are shown in **Appendix 4**.

In case of test-checked VPs, the actual revenue *vis-à-vis* the budget ranged between 34 to 84 *per cent*, while the expenditure *vis-à-vis* the budget ranged between 31 to 54 *per cent*. In the VPs, expenditure towards basic services like rural housing and drinking water, education and culture, social welfare and poverty alleviation programmes was less than one *per cent* of actual total expenditure during the period 2016-21.

The Secretary, Panchayats, acknowledged (June 2022) the observation and assured that options would be explored to make the budgets more realistic.

Non-preparation of budgets by ZPs, delays in preparation of budgets of VPs and their being unrealistic, indicated that compliance of provisions for preparation and submission of budgets was not effective.

Recommendation 10: The ZPs may ensure that budgets are prepared annually and approved by the elected panchayat. The Directorate of Panchayats may monitor and support the timely preparation of budgets by PRIs.

5.6.2 Accounts and audit

Article 243J of the Constitution provides that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the audit of such accounts. On the recommendation of the Eleventh Finance Commission (2001), the Model Accounting System (MAS) was prescribed by Ministry of Panchayati Raj (MoPR), GoI in consultation with the CAG and simplified in 2009. However, the same was not implemented by the PRIs in the State. The MoPR launched (September 2010) an accounting software called Panchayati Raj Institution Accounting Software (PRIASoft)¹¹. Further, MoPR merged (April 2020) the PRIASoft application with other applications called *e-GramSwaraj* a web-based portal. The *e-GramSwaraj* was adopted only for the Fourteenth and Fifteenth Finance Commission Grants for VPs. It was further informed (February 2024) by Secretary, Panchayats, that *e-GramSwaraj* was being used for preparation of Zilla Panchayat

¹¹ PRIASoft is one of the Common Core Applications under Panchayat Enterprises Suits (PES) of e- Panchayat MMP

Development Plan (ZPDP). The status of preparation of accounts and audit is discussed in the succeeding paragraphs.

- No rules were prescribed under the GPRA for maintenance of accounts of ZPs, unlike that for VPs¹². Accounts of North Goa Zilla Panchayat (NGZP) were incorrectly prepared from 2009-10 till 2015-16. Further, the accounts were not submitted by NGZP for the period 2016-17 onwards for Audit. Hence, the audit of these years' accounts could not be conducted by the CAG.

The NGZP agreed (March 2022) to correct the accounts and resubmit for audit. Though the DoP did not call for accounts from the ZPs as required under Section 175(3) of the GPRA, it agreed (March 2022) to take up the matter with the ZP. At the instance of Audit, DoP issued an instruction (August 2023) to correct the accounts.

- In all test-checked 16 VPs, annual accounts were prepared till 2020-21 (as on June 2022) in accordance with the formats prescribed in 'The Goa Panchayats (Accounts, Audit and Custody of Funds) Rules, 1997'. The DoP stated (March 2022) that the issue of onboarding of *e-GramSwaraj* for other schemes (State and Central) would be considered.

The Secretary, Panchayats, acknowledged the observation during Exit Conference (June 2022) and stated that the Department would take up the matter regarding the rules and preparation of pending accounts.

- MoPR developed an application 'AuditOnline' for online audit of PRIs. It facilitated internal and external audit of PRIs including financial audit of accounts. MoPR instructed (October 2020) the State Governments to get 20 *per cent* of VPs audited during 2020-21. It was observed that the audit cell of DoP conducted audit of accounts of FC XIV grants for 48 VPs (out of 191) for the year 2019-20, while the audit of accounts for the year 2020-21 were yet to be conducted.

The Secretary, Panchayats, while acknowledging the observation during Exit Conference (June 2022) stated that audits were now being undertaken in 'AuditOnline' application. It was informed (August 2023) by DoP that audit of Finance Commission grants was being conducted in 'AuditOnline' application.

- The Director of Accounts, who was the Statutory Auditor for the VPs¹³ discontinued the audits with effect from April 2018 with the approval of the Government of Goa due to lack of manpower. As a result, the accounts of VPs were not audited from 2018-19 till 2020-21 (March 2022). The Director of Accounts informed that audits of VPs have been resumed from April 2022.

There were delays in the preparation of accounts of ZPs. Discontinuation of audit of Local Bodies by the Statutory Auditor was a serious lapse.

¹² The Goa Panchayats (Accounts, Audit and Custody of Funds) Rules, 1997.

¹³ Section 187 of GPRA read with Rule 23 of the Goa Panchayats (Accounts, Audit and Custody of Funds) Rules, 1997.

Recommendation 11: The Government may notify Accounting Rules for PRIs based on Model Accounting System. The Directorate of Panchayats may monitor and support the timely preparation of accounts of PRIs and their audit.

5.6.3 Revenue expenditure gap in PRIs

Analysis of trends of revenue and expenditure for two ZPs and 191 VPs revealed that while ZPs faced 100 per cent revenue-expenditure gap¹⁴, the VPs were able to generate their own revenues to meet about 60 per cent of their total expenditure during the audit period as shown in **Table 5.7** below.

Table 5.7: Comparison of own revenues of VPs to expenditure

(₹ in crore)

Year	Own revenue	Total expenditure	Percentage of own revenue to total expenditure
2016-17	61.86	102.10	60.58
2017-18	70.26	114.42	61.40
2018-19	63.30	115.38	54.86
2019-20	81.86	133.13	61.49
2020-21	83.77	136.56	61.34
Total	361.06	601.61	60.01

(Source: Information provided by DoP)

Audit observed that 46 out of 191 VPs were able to meet the establishment expenditure out of their own revenues during 2016-17 to 2020-21 and four¹⁵ had a mixed record of being able to meet during a few years, while failing to do so in other years. The remaining 141 VPs could not meet their establishment expenditures during any of the five years.

Majority of the PRIs were not able to meet even their establishment expenditure out of their own resources. Inability of PRIs to earn sufficient own revenue resulted in increased dependence on grants from the Government.

¹⁴ The revenue expenditure gap indicates difference between earned revenue by a Local Body by using its statutory means like taxes, fees, etc. and total expenditure.

¹⁵ Dhargalim-met the expenditure status: two years (yes), three years (no); Davorlim- met the expenditure status: three years (yes), two years (no); Camorlim- met the expenditure status: three years (yes), two years (no); Veling, Priol, Cuncoliem- met the expenditure status: one year (yes), four years (no).