

Structured Training Module
on
Legislative Framework and
Accounting Framework of
Panchayat Raj Institutions

Regional Training Institute, Kolkata
Indian Audit and Accounts Department
CGO Complex, DF Block, 5th Floor Kolkata-64

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Foreword

The Regional Training Institute (RTI), Kolkata was designated in December 2003 by the Office of the Comptroller and Auditor General of India (C&AG), as the nodal centre (Centre of Excellence) for training in the audit of local bodies. It was subsequently in August 2012 re designated as Knowledge Centre for local bodies. In pursuit of excellence in our assigned areas of Knowledge Centre, this institute is mandated to plan and facilitate different kinds of capacity building and knowledge sharing initiatives which include, among other things, preparation of structured training modules etc.

Two Structured Training Modules were prepared by this Institute in the Year 2004 on the audit of local bodies of Panchayati Raj Institutions (PRIs) (Gram Panchayat), and audit of Zilla Parishad and Panchayat Samity.

The training module on the *Audit of Gram Panchayat* was broadly designed mostly in the context of West Bengal keeping in view its performance in supporting the panchayats, almost two decades prior to the 73rd Amendment to the Constitution (through the enactment of the West Bengal Panchayat Act, 1973 and the holding of Panchayat elections with regularity every fifth year since 1978). However, as the wider framework of local governance falls within the purview of the 73rd Amendment, the common aspects of organizational apparatuses and the key thrust areas of audit analysis remained the overall focus.

Similarly, the module on the *Audit of Zila Parishad and Panchayat Samiti* was also broadly designed mostly in the context of West Bengal keeping in view its performance in supporting the panchayats, almost two decades prior to the 73rd Amendment to the Constitution through the enactment of the West Bengal Panchayat Act, 1973.

Guidelines for Certification Audit of Accounts of Panchayati Raj Institutions were also issued by the Office of the C&AG for guidance to certification audit which describes the general principles and underlying concepts of certification audit of accounts of Panchayati Raj Institutions and the audit methodology to be adopted. These guidelines are intended only for certifying financial statements and should be read as a supplement to the audit manuals issued by the Comptroller and Auditor General of India and financial accounting rules issued by State Governments locally.

As per directives from the C&AG's Office the present STM on Legislative/Constitutional framework and accounting framework of Panchayati Raj Institutions has been prepared by this Institute with the object of giving history of Panchayati Raj Institutions, their present legislative/constitutional framework and financial framework as per relevant Panchati Raj Acts & rules of State Government on PRI Institutions.

We are indebted to the MOPR as well as various research scholars who have kindly posted various important facts and information and data about Panchsyst Raj Institutes in their websites. We have incorporated such facts, information and data in this STM apart from our own study.

We welcome feedback and suggestions from user offices and agencies, to delineate further areas for gaining a holistic perspective on the entire area of grassroots-level decentralization, at rtiercal@vsnl.net.

Principal Director/RTI

Course Module

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List of Abbreviations and Acronyms

| Sl. No. | Abbreviated Form | Full Form |
|---------|------------------|--|
| 1 | C&AG | Comptroller And Auditor General Of India |
| 2 | AG | Accountant General |
| 3 | GP | Gram Panchayat |
| 4 | GS | Gram Sabha |
| 5 | PS | Panchayat Samity |
| 6 | ZP | Zilla Parishad |
| 7 | DP | District Panchayat |
| 8 | PRI | Panchayati Raj Institution |
| 9 | CDP | Community Development Programme |
| 10 | DLC | District Level Committee |
| 11 | SFC | State Finance Commission |
| 12 | CFC | Central Finance Commission |

| Sl. No. | Abbreviated Form | Full Form |
|---------|------------------|---|
| 13 | SC | Scheduled Caste |
| 14 | ST | Scheduled Tribe |
| 15 | UT | Union Territory |
| 16 | PESA | Panchayats (Extension to the Scheduled Areas) Act |
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Regional Training Institute, Kolkata

Course Module on Legislative/Constitutional Framework and accounting Framework of Panchayati Raj Institutions.

Course Title: Legislative/Constitutional Framework and accounting Framework of Panchayati Raj Institutions.

Training Objective: Familiarization with the Legislative/Constitutional and accounting frameworks of the Panchayati Raj Institutions, vis-a vis enabling the participants to-

- (i) understand the Evolution of Panchayati Raj Institutions (PRIs),
- (ii) constitutional and legislative Framework of PRIs.
- (iii) back ground for 73rd Amendment to the Constitution. Details of Articles inserted in the 73rd Amendment.
- (iv) Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment.
- (v) Financial Frame work of PRI sectors.
- (vi) Constitutional provisions on Panchayat Finances.
- (vii) Constitutional Framework for inter governmental fiscal transfer.
- (viii) Panchayat's Fund and need for fiscal decentralization and devolution.
- (ix) Need for devolution of funds to PRIs as untied.
- (x) Need for raising own resources.
- (xi) Accounting history in ancient period.
- (xii) Accounting history in ancient India including PRI accounting system.
- (xiii) Govt. accounting systems- Rules and certain guidelines thereof.
- (xiv) Government Accounting Standards Advisory Board (GASAB).
- (xv) Necessity of accounting in Panchayat Raj Institutions.
- (xvi) Consitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States.
- (xvii) Classification of accounting heads.
- (xviii) Computerization of accounting system Panchayats.
- (xix) Model Accounting system & PRIA soft.

Training Method: Interactive lectures, PowerPoint Presentations and exercises

Sessions at a glance

Day 1

| Session | | Time Required | Topic |
|----------|-------------------|---------------|--|
| 1 | Forenoon Session | 75 mins | Evolution of Panchayati Raj Institutions(PRIs), constitutional and legislative Framework of PRIs. |
| 2 | | 75 mins | The back ground for 73 rd Amendment to the Constitution. Details of Articles inserted in the 73 rd Amendment. Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment. |
| 3 | Afternoon Session | 75 mins | Gram Sabha & District Planning Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad, Committee. |
| 4 | | 75 mins | Functions of a model local Government. Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee. |

Day 2

| Session | | Time Required | Topic |
|----------|-------------------|---------------|--|
| 5 | Forenoon Session | 75 mins | Financial Frame work of PRI sectors. Constitutional provisions on Panchayat Finances. Constitutional Framework for inter governmental fiscal transfer. |
| 6 | | 75 mins | Panchayat's Fund and need for fiscal decentralization and devolution. Need for devolution of funds to PRIs as untied. Need for raising own resources |
| 7 | Afternoon Session | 75 mins | Accounting history in ancient period. Accounting history in ancient India including PRI accounting system. Govt. accounting systems- Rules and certain guidelines thereof. |

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|---|--|---------|---|
| | | | Government Accounting Standards Advisory Board (GASAB). Necessity of accounting in Panchayat Raj Institutions. |
| 8 | | 75 mins | Constitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States. Classification of accounting heads. Computerization of accounting system Panchayats. Model Accounting system & PRIA soft. |

Session 1

Evolution of PRI, Legislative/ Constitutional Framework of Panchayat Raj Institutions.



- Instructor's Guide
- Participants' Note
- PowerPoint Slides

| | | |
|---|--|------------------------|
| Session Title: Evolution of Panchayati Raj Institutions (PRIs), constitutional/legislative Framework of Panchayat Raj Institutions. | | Session Guide |
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the basic concept of PRIs, evolution of PRIs, ancient history of PRIs, PRIs in British Era and preindependence period & 73 rd Amendment to the Constitution vis vis constitutional/legislative Framework/ provisions for PRIs and status of PRIs. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● the historical perspective of PRIs beginning with the concept of Panchayat in ancient India. ● the evolution of Panchayat and Local Government Institutions in the pre and post-independence period. ● the constitutional provisions of Panchayats. | Slide : Evolution of PRI (post-independence) | |
| Summarise: | | |
| During the session, discuss the history and evolution of PRIs, and their constitutional status. Thank the participants and bring the session to a close. | | |

Session Title:

Evolution of Panchayati Raj Institutions (PRIs), constitutional and Legislative Framework of PRIs.

Session Overview

In this session following points will be discussed-

- (i) The Historical perspective of PRIs, evolution of PRIs in the very ancient period,
- (ii) British Era and the pre-independence period.
- (iii) Post-independence period.
- (iv) Enactment of constitutional provisions (73rd Amendment to the Constitution) vis a vis Constitutional and legislative Framework and status of the Panchayati Raj Institutions.

At the end of this session, participants will acquire the basic concept of PRIs, constitutional provisions and legislative framework for PRIs.

1. Ancient History of Panchayat Raj Institution.

India has a long legacy of Panchayats, an important feature of these institutions being that they were largely self-governing. There were different forms of

assemblies. Traditionally, these assemblies settled disputes between individuals and villages.

The word panchayat, being derived from the word *pancha panchasvanusthitah*, has references to the existence of Grama Sanghas or rural communities where five elderly and knowledgeable people used to gather before the villagers and heard the problems arising in the village or local area and delivered their verdict to solve the problems. "Panchayat" also literally means "assembly" (*ayat*) of five (*panch*) wise and respected elders chosen and accepted by the local community. The institution of Panchayati Raj is as old as Indian civilization itself. It has been in existence since ancient periods, having an effective control over civil and judicial matters in the village community. The Rigveda, Manusamhita, Dharmashastras, Upanishads, Jatakas and others, refer extensively to local administration, i.e. the panchayat system of administration. In the Manusmriti and Shantiparva of Mahabharata, there are many references to the existence of Grama Sanghas or village councils.

The earliest reference to panchayat is found in the Shanti-Parva of Mahabharata. Pancha and panchavanustitah are semantically close to panchayat. A description of these village councils are also found in **Arthashastra** of Kautilya who lived in 400 B.C. The term "panchayati raj" is an ancient concept that has been adopted by the people of Bharat for their local administration of a village. *Raj* means "rule".

Self-governing village communities characterized by agrarian economies existed in India from the earliest times. It is mentioned in Rigveda that dates from approximately 200 B.C. The village was the basic unit of administration in the Vedic period. The most remarkable feature of the early Vedic polity consisted in the institution of popular assemblies of which two namely '*Sabha*', and the '*Samiti*' deserve special mention. A Samiti was the Vedic Folk Assembly that in some cases enjoyed the right of electing a king while the Sabha exercised some judicial functions.

In the Mauryan period, the village was the basic unit of administration. Villagers used to organize works of public utility and recreation, settle disputes, and act as trustees for the property of minors. But, they had not devolved regular councils. The village council appeared to have evolved into regular bodies in the Gupta period. They were known as *Panchamandalas* in central India and *Gramajanapadas* in Bihar. These bodies negotiated with the government for concessions and settlement of disputes. The inscription of Chola dynasty in the southern part of the country shows the construction and functions of the village assembly and their executive committees. The village administrations were performed by the elected representatives forming village council.

During the medieval and Mughal periods, village bodies were the pivot of administration. In this period, each village had its own panchayat of elders. It was autonomous in its own sphere and exercised powers of local taxation, administrative control, justice and

punishment. The Mughals introduced elaborate administrative machinery with a hierarchy of officials, particularly in the field of revenue. The Mughal local administrative system lasted over centuries. It was with the collapse of the Mughal strong hold, the British established their hegemony in India.

2. British Era and the pre-independence period.

The growth of Panchayats had, through the ancient, medieval and modern periods, ups and downs.

The British came to India as traders. The primary focus of the British Raj was much to do with trade and little to do with governance and development. Even though the British government did not have interest in the village autonomy, they were forced to do so in order to continue their rule in India and, moreover, to meet financial necessities. The Indian rural republic had flourished till the advent of British. It received a set back during the British rule. Self contained village communities and their panchayats ceased

to get substance. They were replaced by formally constituted institutions of village administration. In the highly centralized system of British rule, village autonomy seemed to have lost.

However, it is only from the year 1870 that India saw the dawn of representative institutions with Lord Mayo's resolution proclaiming the need for local interest, local supervision and local care on issues like education, sanitation, medical relief and public works.

Following the footsteps of Mayo, Lord Ripon in 1882 provided the much needed democratic framework to these institutions. All boards (then existing) had to have a two-thirds majority of the non-officials who had to be elected; the chairmen of these bodies had to be from among the elected non-officials. Local self-government institutions received a boost with the setting up of the Royal Commission on Decentralisation in 1907 which viewed that local government should start from the village level rather than the district level.

The years that followed after the First World War, saw the advent of leaders like Mahatma Gandhi on the national political

scene. He set the tone of the nationalist point on the Panchayat. He viewed the Panchayat as a *Swadeshi* institution and visualized the advent of a free nation in India marked by village self-rule and all-round development at the grass root level in the rural areas, which he frequently termed as *Gram Swaraj* ("village self-governance"). The leader of the panchayat was generally called the [mukhiya](#) or [sarpanch](#), an elected position. In the pre-Independence period, Indian villages were organised in a way that enabled them to maintain social order through Panchayats. The informal institution of panchayat was responsible for maintaining and governing village society in accordance with the socio-political norms of their times.

The development of local self-government institutions got a further fillip with the introduction of the Montague-Chelmsford Report which made local self government a transferred subject under the scheme of Dyarchy. By 1925 eight provinces had passed Panchayat Acts and by 1926, six States had also passed Panchayat laws. The Government of India Act of 1935 led to the formation of popular Ministries in 1937 and they undertook legislations to make

the local bodies truly representative of the people. However, the initial zeal of the Ministries to make these institutions popular received a setback between 1939-46 due to the outbreak of the Second World War and events thereafter.

3. The post-independence period.

When India got Independence, the main question which came up was whether panchayat should have a place in the new Constitution or not? The Constituent Assembly stressed that stability, unity and economic progress demanded a more centralized government. But, with the heralding of a new era, India's commitment towards local self-govt. and grass-root democracy stood upright. In fact, it was the inner urge to ensure all round development of India's political leadership that committed the government to implement the decentralization process through the Panchayati Raj framework. Ideologically, the initiation of the panchayati raj system drew its inspiration from Gandhiji's firm conviction that independence must begin at the grass-root level and thus panchayati raj was synonyms with swaraj or self-rule.

Mahatma Gandhi who strongly believed in *Grama Swaraj* pleaded for the transfer of power to the rural masses. According to him, the villages should govern themselves through elected panchayats to become self sufficient. Ultimately, the overall feeling of the members of the Constituent Assembly was for the inclusion of village Panchayats in the Constitution. Thus, the new Constitution enforced on January 26, 1950 gave Constitutional importance to Panchayati Raj Institutions (PRIs) including them in Directive Principles of State Policy (DPSPs) under Article-40 of the Constitution. But it abstained from giving constitutional status to it.

The Article read "the State shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government". The Directive Principles were, thus, only persuasive and did not compel the States to take steps to promote Panchayats.

No worthwhile legislation was enacted either at the national or state level to implement it. In the four decades, since the adoption of the Constitution, panchayat raj institutions have travelled

from the non-justiciable part of the Constitution to one where, through a separate amendment, a whole new status has been added to their history.

After independence, the country adopted the five year plan for the economic growth and prosperity of rural India.

In an attempt to usher in socio-economic and cultural transformation in the country side, in 1952, the Government of India had launched a comprehensive programme of Community Development Programme (popularly known as CDP) which was the biggest rural reconstruction scheme to fight against rural poverty, hunger, disease and ignorance. The First Five Year plan envisaged the establishment of 500 community centres.

However, the programme could not make much headway in fulfilling the dreams of the rural masses. In order to examine the causes for its failure, the Government of India constituted a high power study team headed by Balwantrai Mehta, a Member of Parliament. **The Committee** was appointed in January 1957 to examine the working of the Community Development

Programme (1952) as also to look into the problems of democratic decentralization in independent India and to report on community development projects. The Committee made far reaching recommendations in the direction of democratic decentralization and rural reconstruction. It pointed out that the community development programme was not successful because it failed to evoke local initiative and that in the absence of local initiative and local interest, development would not be possible. The Team also observed that the failure of the CDP was due to the conspicuous absence of people's participation. In order to secure participation, the Team suggested that 'a set of institutional arrangements' would have to be created to make participation meaningful and effective. This resulted in the creation of a 'three-tier' system of PRIs to organize and manage the rural development activities. Thus began a new experiment in the sphere of rural development through the participation of people. The recommendation favoring democratic decentralization accelerated the pace of constituting PRIs in the States. By 1959, most of the States had passed

Panchayat Acts and by mid 1960s, Panchayats had reached all the parts of the country. The panchayat raj system was first adopted by the state of Rajasthan in Nagor district on 2nd Oct 1959. The second state was Andhra Pradesh, while Maharashtra was the Ninth state. This system was adopted by state governments during the 1950s and 60s, as laws were passed to establish panchayats in various states.

The framework of the new institutional arrangement comprised 'Village/Gram Panchayats' at the base, 'Panchayat Samities/Anchalik Parishads' at the middle and 'Zilla Parishads' at the apex level.

The recommendations of Balwantrai Mehta Committee were implemented by many states in the country. Till the mid sixties, Panchayati Raj system flourished in India. But there was decline in Panchayati Raj Institutions after the mid sixties mainly because of centralized tendencies of functioning all over the country.

To fine tune the working of these PRIs, the government appointed various committee from time to time.

Since the Balwantrai Mehta Committee did not make provisions for fiscal decentralization, the K. Santhanam Committee was set up in 1963 to look into Panchayat finances. Key recommendations included powers to levy a special tax on land revenues and homes; consolidation of all grants at the state level and devolution to PRIs; and the establishment of a Panchayat Raj Finance Corporation to look into the financial resources of PRIs and provide loans and financial assistance to grassroots level governments. Sadiq Ali Committee was also set up in 1964 to oversee the progress in decentralization and grass-root democracy in Rajasthan. Since the recommendations of earlier committees were not fully implemented, the Ashoka Mehta Committee (1978) was appointed by the Janata government to again examine measures to strengthen PRIs. It was entrusted with the task of enquiring into the causes responsible for the poor performance of Panchayati Raj Institutions. It was also asked to suggest measures to strengthen Panchayati Raj Institutions. The committee suggested two tier system of Panchayati Raj consisting of Zilla Parishads at the district level and

Mandal Panchayats at the grass root level as against three tier system suggested by the Balwantrai Mehta Committee. The committee recommended constitutional protection to the Panchayati Raj Institutions and further decentralization of power at all levels.

It recommended *inter-alia* the following:

- The district as the key administrative unit for planning, coordination and resource allocation, and the management of the rural and urban continuum.
- Population based representation of Scheduled Castes (SCs) and Scheduled Tribes (STs) in the election to PRIs.
- Participation of political parties in elections.
- Financial devolution consistent with the devolution of developmental functions to the district level.

Thus the thrust shifted from the Panchayat as a development organization to the Panchayat as a political institution. Building on the recommendations of the Ashoka Mehta Committee, the states of Karnataka, Andhra Pradesh, West Bengal and Jammu and Kashmir either revised their existing Panchayat Acts or passed

new legislation. For the first time in India, local body elections in West Bengal in 1978 saw the participation of political parties.

Due to the fall of the Janata government, the Ashok Mehta Committee recommendations were not implemented. Both the Committees overlooked the importance of panchayats as units of self government.

During 1980's, two important Committees were appointed to look into local governments- GVK Rao Committee in 1985 and Dr. L.M. Singhvi Committee in 1986. The GVK Rao committee recommended the revival of Panchayati Raj Institutions in a way so greater responsibility of planning, implementation, and monitoring of rural development programmes could be assigned to them. L.M. Singhvi Committee recommended that the Panchayati Raj Institutions should be constitutionally recognized and protected. New chapter in the constitution should be provided to define their powers and functions and free and fair election to be conducted through the election commission. The Committee recommended for appointment of finance

commission and all the rural development programmes are to be entrusted to the Panchayati Raj Institutions by amending schedule VII of the constitution.

PRIs were, thus, made an institutional component of India's development administration. However, although the ideals and basic objectives of these institutions were identical in nature, their powers, mode of representation of the people and the nature of inter-relationship among them were not uniform. Similarly, the Sarkaria Commission on Centre-State Relations in 1988 too observed that most of the local self-governing bodies were not functioning efficiently and effectively. The Thungan Committee also made exhaustive recommendations on this account. The committee strongly recommended that Panchayati Raj Institutions should be constitutionally recognized and timely and regular elections to these bodies be ensured.

4. 73rd Amendment to the Constitution vis a vis Constitutional/legislative Framework and status of the Panchayati Raj Institutions.

Sea changes were made in the PRI sectors consequent on 73rd Amendment to the Constitution. The 73rd Amendment Act was an attempt to restructure the Panchayati Raj to reach the grassroots level. The bill for the first time gave Constitutional Status to Panchayati Raj Institutions and it became mandatory on all state governments (except Jammu & Kashmir, Mizoram, Nagaland & Meghalaya which are covered in the sixth schedule) and in all Union Territories except Delhi, to implement it. It was mandatory where population is over 2 million. The Panchayats (Extension to the schedule areas) Act, 1996 extends the 73rd Amendment: to the fifth schedule areas. At present, Panchayats & Nagarpalikas are prevailing in 24 States & 5 Union Territories; Schedule Areas are the areas of 9 States, viz. AP, Chhattisgarh, MP, Rajasthan, HP, Jharkhand, Maharashtra, Gujarat & Orissa.

Local Governance in the Tribal Areas-

Article 244 of the Constitution envisages three categories of Tribal Areas, namely:

- Areas notified as 'Scheduled Areas' in the specified States (Fifth Schedule).
- Areas listed as 'Tribal Areas' in the Sixth Schedule in NE.
- Areas not covered in the above two categories.

Fifth Schedule Areas and PESA-

The Fifth Schedule to the Constitution (Article 244) relates to administration and control of the Scheduled Areas and Scheduled Tribes other than those in North-East States. The Panchayats (Extension to the Scheduled Areas) Act (PESA) was enacted in 1996 which extended Part IX of the Constitution to the Schedule V Areas. PESA promotes people-centric governance and provides a central role to the Gram Sabha.

Sixth Schedule concerns 'Administration of Tribal Areas'. There is no special schedule for the rest.

Local Self-Governance in the NE States-

The legal framework of local self

governance (LSG) in NER broadly comprises three typologies:

Sixth Schedule Frame (Meghalaya, parts of Assam, Mizoram and Tripura),

State Legislation Frame (Nagaland, Hill Areas of Manipur and non-Council areas in Mizoram),

National Frame (Arunachal Pradesh, Sikkim, Manipur excluding hill areas and non-Council areas in Assam and Tripura).

Note: 1. There is no intermediate level Panchayat in Sikkim, Jammu & Kashmir and Manipur.

2. The systems established through State laws are Hill areas of Manipur, Nagaland, Meghalaya & J&K. Here functions are done through traditional councils,

3. In the District of Darjeeling (West Bengal) the existing Darjeeling Gorkha Council (Exempt from ZPs) is authorised to function at the District level).

Each tribal area of the Sixth Schedule is designated as an 'autonomous district'. The area inhabited by each of the tribes in a district may be carved out as autonomous

region. Each autonomous district is governed by a 'District Council' (Council, in brief) and autonomous region by a 'Regional Council'.

This unique Council frame comprises the third tier of legislature for Tribal Areas about Sixth Schedule matters. These Councils endowed with legislative, judicial and executive powers, are constitutionally virtually function as 'state within state'.

The traditional self-governing village institutions are strong throughout NER especially in tribal territories. But formal institutions such as Village Council or Gram Sabha under various State laws

(including the Sixth Schedule) are rather weak. Accordingly, the traditional-formal impasse continues.

73rd Amendment brought about uniformity in structure, composition, powers and functions of panchayats. It gave impetus to Panchayati Raj to promote social and economic development and improvement in living condition of rural India. It was passed in 1992 as the 73rd Amendment Act 1992 and came into force on 24th April 1993. A brief Milestones in the Evolution

of Local Government since Independence is given below. The background for this

amendment will be discussed in next Session.

TIME LINE

Milestones in the Evolution of Local Government since Independence

| Towards first generation Panchayats | |
|--|---|
| 1948-49 ↓ | Constituent Assembly debates on the role of Panchayati Raj in Indian politics. |
| 1950 ↓ | The Constitution of India comes into force on 26 January; Directive Principles of State Policy mention village Panchayats as 'units of self-government (Art.40) |
| 1952 ↓ | Community Development Programme starts off on 2 October. |
| 1957 ↓ | Balwantrai Mehta Committee, appointed in January, submits its report on 24 November. |
| 1958-60 ↓ | Several state governments enact new Panchayat Acts bringing in three-tier Panchayat system. |
| 1964-77 ↓ | Decline of first generation Panchayat Raj Institutions. |

Growth and decline of second generation Panchayats

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| 1978 ↓ | Panchayat elections are held in West Bengal on Party basis on 4 June – marking the beginning of second generation of Panchayat Raj. Ashoka Mehta Committee on working of Panchayats, appointed on 21 August. |
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| Constitutionalisation of Panchayati Raj | |
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| 1989 ↓ | 64 th Constitutional Amendment Bill is introduced in Parliament on 15 May; is defeated in Rajya Sabha on 15 October |
| 1991 ↓ | 72 nd (Panchayats) and 73 rd (Municipality) Amendment Bills are introduced in Parliament, referred to the Parliament's Joint Select Committee in September. |
| 1992 ↓ | Lok Sabha passes both the bills on 22 December; Rajya Sabha passes them on 23 December. |
| 1993 ↓ | 73 rd Amendment Act, 1992 comes into force on 24 April. 74 th Amendment Act, 1992 comes into force on 1 June. |
| 1993-94 ↓ | All state governments pass conformity Acts between 30 May 1993 and 23 April. |
| 1996 | Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996, extending 73 rd Amendment Act to Scheduled Areas, comes into force on 24 December. |

Source: Panchayati Raj Update, October 2002

List of areas under Vth Schedule.

The Schedule V Areas of the nine States are AP, Chhattisgarh, Gujarat, Jharkhand, MP, Maharashtra, Orissa, Rajasthan and HP.

These are characterised by poverty, illiteracy, weak infrastructure and deprivation in general. Given the vulnerability of the people, Schedule V of the Constitution makes special provisions such as:

- Report by Governor to the President regarding the administration of these Areas.
- Tribes Advisory Council to advise Governor on matters pertaining to the welfare and advancement of the STs.
- Direction by Governor through public notification that any particular Act of Parliament or of the State Legislature shall or shall not apply to a Scheduled Area or any part thereof.
- Governor to make regulations for the peace and good government.
- Union Government to give direction to the State as to the administration of these Areas.

List of areas under VI th Schedule.

Six districts of Assam, whole of Meghalaya, part of Tripura and two districts of Mizoram are covered under Sixth Schedule.

Slide 1



Historical perspective of local government since ancient period

Slide 4

- In the Mauryan period, the village was the basic unit of administration. Villagers used to organize works of public utility and recreation, settle disputes, and act as trustees for the property of minors. But, they had not yet evolved regular councils.
- The village council appeared to have evolved into regular bodies in the Gupta period. They were known as *Panchamandalas* in central India and *Gramajanapadas* in Bihar. These bodies negotiated with the government for concessions and settlement of disputes.
- The inscription of Chola dynasty in the southern part of the country shows the construction and functions of the village assembly and their executive committees. The village administrations were performed by the elected representatives forming village council contd...SI-5

Training Module on Legislative and Accounting Framework of PRIs. 4

Slide 2

Learning Objective

- The Historical perspective of PRIs
- Evolution of PRIs in the very ancient period, pre and post-independence phase
- Enactment of constitutional provisions, legislative framework of the present PRI sectors

Training Module on Legislative and Accounting Framework of PRIs. 2

Slide 5

- During the medieval and Mughal periods, village bodies were the pivot of administration.
- In this period, each village had its own panchayat of elders. It was autonomous in its own sphere and exercised powers of local taxation, administrative control, justice and punishment.
- The Mughals introduced elaborate administrative machinery with a hierarchy of officials, particularly in the field of revenue.
- The Mughal local administrative system lasted over centuries.
- It was with the collapse of the Mughal strong hold, the British established their hegemony in India

Training Module on Legislative and Accounting Framework of PRIs. 5

Slide 3

Ancient History of Panchayat Raj Institution

- The earliest reference to panchayat is derived from the word *Pancha*, that refers to an institution of the five people (*pancha panchasvanusthitah*) found in the *Shanti-Parva* of *Mahabharata*, *pancha* and *panchavanustitah* are semantically close to panchayat. A description of these village councils are also found in *Arthashastra* of Kautilya who lived in 400 B.C.
- Self-governing village communities characterized by agrarian economies existed in India from the earliest times. It is mentioned in *Rigveda* that dates from approximately 200 B.C.

Contd. To SI-4
Training Module on Legislative and Accounting Framework of PRIs. 3

Slide 6

British Era and the pre-independence period

- The British came to India as traders.
- The primary focus of the British Raj was much to do with trade and little to do with governance and development.
- Even though the British government did not have interest in the village autonomy, they were forced to do so in order to continue their rule in India and, moreover, to meet financial necessities.
- The Indian rural republic had flourished till the advent of British. It received a set back during the British rule.
- Self contained village communities and their panchayats ceased to get substance. They were replaced by formally constituted institutions of village administration.
- In the highly centralized system of British rule, village autonomy seems to have lost.

Contd..SI-7
Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 7

- it is only from the year 1870 that India saw the dawn of representative institutions with Lord Mayo's resolution proclaiming the need for local interest, local supervision and local care on issues like education, sanitation, medical relief and public works.
- Following the footsteps of Mayo, Lord Ripon in 1882 provided the much needed democratic framework to these institutions.

Contd..SI-8

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 10

- By 1925 eight provinces had passed Panchayat Acts and by 1926, six States had also passed Panchayat laws.
- The Government of India Act of 1935 led to the formation of popular Ministries in 1937 and they undertook legislations to make the local bodies truly representative of the people.
- The initial zeal of the Ministries to make these institutions popular received a setback between 1939-46 due to the outbreak of the Second World War and events thereafter

Contd..SI-9

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 8

- Local self-government institutions received a boost with the setting up of the Royal Commission on Decentralisation in 1907 which viewed that local government should start from the village level rather than the district level .
- The development of local self-government institutions got a further fillip with the introduction of the Montague-Chelmsford Report which made local self government a transferred subject under the scheme of Dyarchy.

Contd..SI-9

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 11

The post-independence period

- After India got independence, an important question which came up was the nature of the role the Panchayats should have in the new Constitution.
- Mahatma Gandhi who strongly believed in *Grama Swaraj* pleaded for the transfer of power to the rural masses
- During the drafting of the Constitution of India, Panchayati Raj Institutions were placed in the non-justiciable part of the Constitution, the Directive Principles of State Policy, as Article 40 contd. SI-12

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 9

- Local self-government institutions received a boost with the setting up of the Royal Commission on Decentralisation in 1907 which viewed that local government should start from the village level rather than the district level .
- The development of local self-government institutions got a further fillip with the introduction of the Montague-Chelmsford Report which made local self government a transferred subject under the scheme of Dyarchy.

Contd..SI-9

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 12

- The Article read "the State shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government".
- The Directive Principles were, thus, only persuasive and did not compel the States to take steps to promote Panchayats.
- No worthwhile legislation was enacted either at the national or state level to implement it

Contd..SI-12

Training Module on Legislative and Accounting Framework of PRIs.

12

Slide 13

- **Balwantrai Mehta Committee was the first Committee set up in 1957 to look into the problems of democratic decentralization in independent India**
- **It pointed out that the community development programme was not successful because it failed to evoke local initiative and that in the absence of local initiative and local interest, development would not be possible.**
- **The recommendations of Balwantrai Mehta Committee were implemented by many states in the country**

Contd..SI-14

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 16

- **The committee recommended constitutional protection to the Panchayati Raj Institutions and further decentralization of power at all levels.**
- **Thus the thrust shifted from the Panchayat as a development organization to the Panchayat as a political institution**
- **the states of Karnataka, Andhra Pradesh, West Bengal and Jammu and Kashmir either revised their existing Panchayat Acts or passed new legislation**
- **For the first time in India, local body elections in West Bengal in 1978 saw the participation of political parties.**

contd.SI17

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 14

- **Since the Balwantrai Mehta Committee did not make provisions for fiscal decentralization**
- **the K. Santhanam Committee was set up in 1963 to look into Panchayat finances. Key recommendations included powers to levy a special tax on land revenues and homes; consolidation of all grants at the state level and devolution to PRIs;**
- **and the establishment of a Panchayat Raj Finance Corporation to look into the financial resources of PRIs and provide loans and financial assistance to grassroots level governments.country**

Contd..SI-15

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 17

- **Due to the fall of the Janata government, the Ashok Mehta Committee recommendations were not implemented.**
- **Both the Committees overlooked the importance of panchayats as units of self government**

contd.SI17

Training Module on Legislative and Accounting Framework of PRIs.

6

Slide 15

- **Ashoka Mehta Committee (1978) was appointed by the Janata government to again examine measures to strengthen PRIs.**
- **It was entrusted with the task of enquiring into the causes responsible for the poor performance of Panchayati Raj Institutions.**
- **It was also asked to suggest measures to strengthen Panchayati Raj Institutions. The committee suggested two tier system of Panchayati Raj consisting of Zilla Parishads at the district level and Mandal Panchayats at the grass root level as against three tier system suggested by the Balwantrai Mehta Committee.**

Contd..SI-14

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6

Slide 18

- **During 1980's, two important Committees were appointed to look into local governments-**
- **GVK Rao Committee in 1985 and Dr. L.M. Singhvi Committee in 1986.**
- **The GVK Rao committee recommended the revival of Panchayati Raj Institutions in a way so greater responsibility of planning, implementation, and monitoring of rural development programmes could be assigned to them.**

contd.SI-18

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6

Slide 19

- L.M. Singhvi Committee recommended that the Panchayati Raj Institutions should be constitutionally recognized and protected.
- New chapter in the constitution should be provided to define their powers and functions and free and fair election to be conducted through the election commission.
- The Committee recommended for appointment of finance commission and all the rural development programmes are to be entrusted to the Panchayati Raj Institutions by amending schedule VII of the constitution

contd.SI-20

Training Module on Legislative and Accounting Framework of PRI

6

Slide 20

73rd Amendment to the Constitution

- Sea changes were made in the PRI sectors consequent on 73rd Amendment to the Constitution.
- The 73rd Amendment Act was an attempt to restructure the Panchayati Raj to reach the grassroots level.
- The bill for the first time gave Constitutional Status to Panchayati Raj Institutions and it became mandatory on all state governments (except Jammu & Kashmir, Mizoram, Nagaland & Meghalaya which are covered in the sixth schedule) to implement it.

The Panchayats (Extension to the schedule areas) Act, 1996 extends the 73rd Amendment to the fifth schedule areas

Training Module on Legislative and Accounting Framework of PRI

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Session 2

The back ground for 73rd Amendment to the Constitution. Details of Articles inserted in the 73rd Amendment.

Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment.



- **Instructor's Guide**
- **Participants' Note**
- **PowerPoint Slides**

| | | |
|---|---------------------|------------------------|
| <p>Session Title: The back ground for 73rd Amendment to the Constitution. Details of Articles inserted in the 73rd Amendment.</p> <p>Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment.</p> | | Session Guide |
| Instructor’s Guide | Reference | Participant’s Response |
| Session Overview | | |
| <p>Welcome participants to the session and remind them that their active participation is critical for the success of each session.</p> | | |
| Learning Objective | | |
| <p>Inform: At the end of this session, the participants will acquire the knowledge of back ground for 73rd Amendment to the Constitution and articles inserted in the 73rd Amendment. Devolution of power to the PRIs and its actual accomplishment.</p> | | |
| Basic Concepts | | |
| <p>Discuss:</p> <ul style="list-style-type: none"> the back ground for 73rd amendment to the Constitution. articles inserted in the 73rd amendment. devolution of powers to the Panchayat Raj Institutions actual accomplishment. | Respective Slides : | |
| Summarise: | | |
| <p>During the session, discuss the necessity for 73rd amendment to constitution, details of amendments, and actual accomplishment in the PRI sectors.</p> <p>Thank the participants and bring the session to a close.</p> | | |

Session Title

The back ground for 73rd Amendment to the Constitution. Details of Articles inserted in the 73rd Amendment.

Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment.

Session Overview

In this session following points will be discussed:

1. The back ground for 73rd Amendment to the constitution.
2. The Summary discussions made in the “Statement of objectives and reasons for such amendments”.
3. The details of Articles inserted in the Amendment.
4. Current status of Panchayats.
5. Actual accomplishment of the amendments in PRI sectors.

While amending the Constitution it was discussed in the “Statement of objectives and reasons for such amendments” as follows:

“Though the Panchayati Raj Institutions have been in existence for a long time, it

has been observed that these institutions have not been able to acquire the status and dignity of viable and responsive people’s bodies due to a number of reasons including absence of regular elections, prolonged suppressions, insufficient representation of weaker sections like Scheduled Castes, Scheduled Tribes and women, inadequate devolution of powers and lack of financial resources.

Articles 40 of the Constitution which enshrines one of the Directive Principles of State Policy lays down that the State shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government. In the light of the experience in the last forty years and in view of the short-comings which have been observed, it is considered that there is an imperative need to enshrine in the Constitution certain basic and essential features of PRIs to impart certainty, continuity and strengthen to them.

Accordingly, it is proposed to add a new Part relating to Panchayats in the Constitution to provide for among other things, Gram Sabha in a village or group of villages; constitution of Panchayats at village and other level or levels; direct elections to all seats in Panchayats at the village and intermediate level, if any, and to the offices of Chairpersons of Panchayats at such levels; reservation of seats for the Scheduled Castes and Scheduled Tribes in proportion to their population for membership of Panchayats and office of the Chairpersons in Panchayats at each level; reservation of not less than one third of the seats for women; fixing tenure of 5 years for Panchayats and holding elections within a period of 6 months in the event of supersession of any Panchayat; disqualifications for membership of Panchayats; devolution by the State Legislature of powers and responsibilities upon the Panchayats with respect to the preparation of plans for economic developments and social justice and for the implementation of development schemes; and social justice and sound finance of the Panchayats by securing authorization from State Legislatures for

the grants-in-aid to the Panchayats from the 'consolidated Fund of the State, as also assignment to, or appropriation by, the Panchayats of the revenues of designated taxes, duties, tolls and fees; setting up of a Finance Commission within one year of the proposed amendment and thereafter every 5 years to review the financial position of Panchayats; auditing of accounts of the Panchayats; powers of State Legislatures to make provisions with respect to elections to Panchayats under the superintendence, direction and control of the Chief electoral Officer of the State; application of the provisions of the said Part to the Union territories; excluding certain States and areas from the application of the provisions of the said part; continuation of existing laws and Panchayats until one year from the commencement of the proposed amendment and barring interference by courts in electoral matters relating to Panchayats."

The summarized recommendations were as follows:

- The Gram Sabha or village assembly as a deliberative body for decentralized

governance has been envisaged as the foundation of the Panchayati Raj System.

- A uniform three-tier structure of panchayats (local Government) at village, intermediate or block and district levels may be set up. These Panchayats are known by different names in different States-

(Gram Panchayats, Grama Panchayats, Gaon Panchayats and Village Panchayats) at village level.

(Mandal Parishads, Anchal Samitis, Anchalik Samitis, Block Panchayats,

Janpad Panchayats, Panchayat Union Councils, Panchayat Samitis, Kshetra Panchayats and Taluk Panchayats) at intermediate (Block) level.

(Zilla Parishads, Zilla Panchayats and District Panchayats) at District level.

- All the seats in a panchayat at every level are to be filled by elections from respective territorial constituencies.
- Not less than one-third of the total seats for membership as well as office of chairpersons of each tier has to be reserved for women.

- Reservation for weaker castes and tribes (SCs and STs) has to be provided at all levels in proportion to their population in the panchayats.
- To supervise, direct and control the regular and smooth elections to panchayats, a State Election Commission has to be constituted in every State and UT.
- To ensure constitution of a State Finance Commission in every State/UT, for every five years, to suggest measures to strengthen finances of Panchayati Raj Institutions.
- To promote bottom-up-planning; the District Planning Committee (DPC) in every district has been accorded constitutional status.

An indicative list of 29 items has been given in Eleventh Schedule of the Constitution. Panchayats are expected to play an effective role in planning and implementation of works related to these 29 items.

Thus the main aim of 73rd Amendment was decentralization of service delivery to local governments.

In order to implement Article 40 of the Constitution, the 73rd Constitution Amendment Act, 1992 inserted Articles 243 to 243-O (appended below) which tried to address some of the problems encountered by PRIs in previous years by

- a) Granting PRIs constitutional status;
- b) Empowering socially and economically disadvantaged groups such as dalits, adivasis and women;
- c) Ensuring free, fair and regular elections;
- d) Keeping terms fixed;
- e) Identifying a list of subjects to come under the jurisdiction of PRIs;
- f) Addressing the issue of PRI finances; and
- g) Establishing the Gram Sabha (village assembly) as the electorate body to which the Panchayat would be accountable.

Thus the 73rd Constitutional Amendment consolidated many of the gains achieved in establishing PRIs, and imposed a political

uniformity on the structure and working of the third tier. The Amendment perceived popular participation as the key in decision-making and service delivery. This goal of reclaiming the state by the citizen had become particularly important with weaknesses in the state's delivery mechanisms becoming evident.

The main features of the 73rd Amendment are appended below in a separate statement.

The details of Articles inserted in the 73rd Amendment are mentioned below:

Article 243A {Gram Sabha}

A Gram Sabha may exercise such powers and perform such functions at the village level as the Legislature of a State may, by law, provide.

Article 243B {Constitution of Panchayats}

1. There shall be constituted in every State, Panchayats at the village, intermediate and district levels in accordance with the provisions of this Part.
2. Notwithstanding anything in Clause (1), Panchayats at the intermediate level may not be constituted in a State having a population not exceeding twenty lakhs.

Article 243C {Composition of Panchayats}

1. Subject to the provisions of this Part, the Legislature of a State may, by law, make provisions with respect to the composition of Panchayats: Provided that the ratio between the population of the territorial area of a Panchayat at any level and the number of seats in such Panchayat to be filled [by] election shall, so far as practicable, be the same throughout the State.
2. All the seats in a Panchayat shall be filled by persons chosen by direct election from territorial constituencies in the Panchayat area and, for this purpose, each Panchayat area shall be divided into territorial constituencies in

such manner that the ratio between the population of each constituency and the number of seats allotted to it shall, so far as practicable, be the same throughout the Panchayat area.

3. The Legislature of a State may, by law, provide for the representation -
 - a. of the Chairpersons of the Panchayats at the village level, in the Panchayats at the intermediate level or, in the case of a State not having Panchayats at the intermediate level, in the Panchayats at the district level;
 - b. of the Chairpersons of the Panchayats at the intermediate level, in the Panchayats at the district level;
 - c. of the members of the House of the People and the Members of the Legislative Assembly of the State representing constituencies which comprise wholly or partly Panchayat area at a level other than the village level, in such Panchayat;
 - d. of the members of the Council of States and the members of the Legislative Council of the State, where they are registered as electors within -
 - i) a Panchayat area at the intermediate level, in Panchayat at the intermediate level;
 - ii) a Panchayat area at the district level, in Panchayat at the district level.

4. The Chairperson of a Panchayat and other members of a Panchayat whether or not chosen by direct election from territorial constituencies in the Panchayat area shall have the right to vote in the meetings of the Panchayats.
5. The Chairperson of -
 - a. a Panchayat at the village level shall be elected in such manner as the Legislature of a State may, by law, provide; and
 - b. a Panchayat at the intermediate level or district level shall be elected by, and from amongst, the elected members thereof.

Article 243D {Reservation of seats}

1. Seats shall be reserved for -
 - a. the Scheduled Castes; and
 - b. the Scheduled Tribes, in every Panchayat and the number of seats so reserved shall bear, as nearly as may be, the same proportion to the total number of seats to be filled by direct election in that Panchayat as the population of the Scheduled Castes in that Panchayat area or of the Scheduled Tribes in that Panchayat area bears to the total population of that area and such seats may be allotted by rotation to different constituencies in a Panchayat.
2. Not less than one-third of the total number of seats reserved under clause (1) shall be reserved for women belonging to the Scheduled Castes or, as the case may be, the Scheduled Tribes.
3. Not less than one-third (including the number of seats reserved for women belonging to the Scheduled Castes and the Scheduled Tribes) of the total number of seats to be filled by direct election in every Panchayat shall be reserved for women and such seats may be allotted by rotation to different constituencies in a Panchayat.
4. The offices of the Chairpersons in the Panchayats at the village or any other level shall be reserved for the Scheduled Castes, the Scheduled Tribes and women in such manner as the Legislature of a State may, by law, provide: Provided that the number of offices of Chairpersons reserved for the Scheduled Castes and the Scheduled Tribes in the Panchayats at each level in any State shall bear, as nearly as may be, the same proportion to the total number of such offices in the Panchayats at each level as the population of the Scheduled Castes in the State or of the Scheduled Tribes in the State bears to the total population of the State: Provided further that not less than one-third of the total number of offices of Chairpersons in the Panchayats at each level shall be reserved for women: Provided also that the number of offices reserved under this clause shall be allotted by rotation to different Panchayats at each level.
5. The reservation of seats under Clauses (1) and (2) and the reservation of office of Chairpersons (other than the reservation for women) under Clause (4) shall cease to have effect on the expiration of the period specified in Article 334.
6. Nothing in this Part shall prevent the Legislature of a State from making any provision for reservation of seats in any Panchayat or offices of Chairpersons in

the Panchayats at any level in favour of backward class of citizens.

Article 243E {Duration of Panchayats, etc.}

1. Every Panchayat, unless sooner dissolved under any law for the time being in force, shall continue for five years from the date appointed for its first meeting and no longer.
2. No amendment of any law for the time being in force shall have the effect of causing dissolution of a Panchayat at any level, which is functioning immediately before such amendment, till the expiration of its duration specified in Clause (1).
3. An election to constitute a Panchayat shall be completed -
 - a. before the expiry of its duration specified in clause (1);
 - b. before the expiration of a period of six months from the date of its dissolution:

Provided that where the remainder of the period for which the dissolved Panchayat would have continued is less than six months, it shall not be necessary to hold any election under this clause for constituting the Panchayat.

4. A Panchayat constituted upon the dissolution of a Panchayat before the expiration of its duration shall continue only for the remainder of the period for which the dissolved Panchayat would have continued under Clause (1) had it not been so dissolved.

Article 243F {Disqualifications for membership}

1. A person shall be disqualified for being chosen as, and for being, a member of a Panchayat -
 - a. if he is so disqualified by or under any law for the time being in force for the purposes of elections to the Legislature of the State concerned: Provided that no person shall be disqualified on the ground that he is less than twenty-five years of age, if he has attained the age of twenty-one years;
 - b. if he is so disqualified by or under any law made by the Legislature of the State.
2. If any question arises as to whether a member of a Panchayat has become subject to any of the disqualifications mentioned in Clause (1), the question shall be referred for the decision of such authority and in such manner as the Legislature of a State may, by law, provide.

Article 243G {Powers, authority and responsibilities of Panchayats}

Subject to the provisions of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority and may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level; subject to such conditions as may be specified therein, with respect to -

- a. the preparation of plans for economic development and social justice;
- b. the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

Article 243H {Powers to impose taxes by, and Funds of, the Panchayats}

The Legislature of a State may, by law, -

- a. authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- b. assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- c. provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State; and
- d. provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such moneys therefrom,

as may be specified in the law.

Article 243I {Constitution of Finance Commission to review financial position}

1. The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution

(Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the Panchayats and to make recommendations to the Governor as to

-
- a. the principles which should govern

- i. the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
 - ii. the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats;
 - iii. the grants-in-aid to the Panchayats from the Consolidated Fund of the State;
 - b. the measures needed to improve the financial position of the Panchayats;
 - c. any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.
2. The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as members thereof and the manner in which they shall be selected.
 3. The Commission shall determine their procedure and shall have such powers in the performance of their functions as the Legislature of the State may, by law, confer on them.

4. The Governor shall cause every recommendation made by the Commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the Legislature of the State.

Article 243J {Audit of accounts of Panchayats}

The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.

Article 243K {Elections to the Panchayats}

1. The superintendence, direction and control of the preparation of electoral rolls for, and the conduct of, all elections to the Panchayats shall be vested in a State Election Commission consisting of a State Election Commissioner to be appointed by the Governor.
2. Subject to the provisions of any law made by the Legislature of a State, the conditions of service and tenure of office of the State Election Commissioner shall be such as the Governor may by rule determine: Provided that the State Election Commissioner shall not be removed from his office except in like manner and on the like grounds as a Judge of a High Court and the conditions of service of the State Election Commissioner shall not be varied to his disadvantage after his appointment.
3. The Governor of a State shall, when so requested by the State Election

Commission, make available to the State Election Commission such staff as may be necessary for the discharge of the functions conferred on the State Election Commission by Clause (1).

4. Subject to the provisions of this Constitution, the Legislature of a State may, by law, make provision with respect to all matters relating to, or in connection with, elections to the Panchayats.

Article 243L {Application to Union territories}

The provisions of this Part shall apply to the Union territories and shall, in their application to a Union territory, have effect as if the references to the Governor of a State were references to the Administrator of the Union territory appointed under Article 239 and references to the Legislature or the Legislative Assembly of a State were references, in relation to a Union territory having a Legislative Assembly, to that Legislative Assembly: Provided that the President may, by public notification direct that the provisions of this Part shall apply to any Union territory or part thereof subject to such exceptions and modifications as he may specify in the notification.

Article 243M {Part not to apply to certain areas}

1. Nothing in this Part shall apply to the Scheduled Areas referred to in Clause (1), and the tribal areas referred to in Clause (2), of Article 244.
2. Nothing in this Part shall apply to -
 - a. the States of Nagaland, Meghalaya and Mizoram;

- b. the Hill Area in the State of Manipur for which District Councils exist under any law for the time being in force.
3. Nothing in this Part -
- a. relating to Panchayats at the district level shall apply to the Hill areas of the District of Darjeeling in the State of West Bengal for which Darjeeling Gorkha Hill Council exists under any law for the time being in force;
 - b. shall be construed to affect the functions and powers of the Darjeeling Gorkha Hill Council constituted under such law.
4. Notwithstanding anything in this Constitution, -
- a. the Legislature of a State referred to in Sub-clause (a) of Clause (2) may, by law, extend this Part to the State, except the areas, if any, referred to in Clause (1), if the Legislative Assembly of that State passes a resolution to that effect by a majority of the total membership of that House and by a majority of not less than two-thirds of the members of that House present and voting;
 - b. Parliament may, by law, extend the provisions of this Part to the Scheduled Areas and the tribal areas referred to in Clause (1) subject to such exceptions and modifications as may be specified in such law, and no such law shall be deemed to be an amendment of this Constitution for the purposes of Article 368.

Article 243N {Continuance of existing laws and Panchayats}

Notwithstanding anything in this Part, any provision of any law relating to Panchayats in force in a State immediately before the

commencement of the Constitution (Seventy-second Amendment) Act, 1992, which is inconsistent with the provisions of this Part, shall continue to be in force until amended or repealed by a competent Legislature or other competent authority or until the expiration of one year from such commencement, whichever is earlier:

Provided that all the Panchayats existing immediately before such commencement shall continue till the expiration of their duration, unless sooner dissolved by a resolution passed to that effect by the Legislative Assembly of that State or, in the case of a State having a Legislative Council, by each House of the Legislature of that State.

Article 243O {Bar to interference by courts in electoral matters}

Notwithstanding anything in this Constitution, -

- a. the validity of any law relating to the delimitation of constituencies or the allotment of seats to such constituencies, made or purporting to be made under Article 243K, shall not be called in question in any Court;
- b. no election to any Panchayat shall be called in question except by an election petition presented to such authority and in such manner as is provided for by or under any law made by the Legislature of a State.

Of the amendments made, amendments in Article 243 (G), 243(H) & 243(I), 243(J) & 243(K) are very much important.

Current Status of the Panchayats.

State of Panchayat Reports (SoPRs)-

The SoPRs (published in 2006, 2008 and 2010 respectively) show that, overall, the mandatory provisions specified in the Constitution have been implemented in the last decade and a half. All Part IX States (elections in Jharkhand held up till recently due to a court case) held regular elections through the State Election Commissions. All the States have implemented reservation for women, Scheduled Castes (SCs) and Scheduled Tribes (STs) bringing almost 1.6 million representatives from these groups into elected positions in the Panchayats, making the Panchayats the nursery of future leadership. State Finance Commissions (SFCs) have been constituted and in many States, their recommendations have been acted upon. All the States (excluding Uttarakhand and Jharkhand) have constituted District Planning Committees and most have initiated decentralised planning processes.

Devolution of powers to PRIs and actual accomplishment.

The Constitution (73rd Amendment) Act, 1992 was a turning point in the history of

decentralised governance, planning and development. With the 73rd amendment to the Indian Constitution, Local Self-Government Institutions have come to be recognized as vehicles of socio-economic transformation in India. Government of India had decentralized political, administrative and fiscal powers to urban and rural local self governing bodies. Fiscal decentralization leads to the empowerment of local governments and is, therefore, absolutely inevitable in a democratic nation. As self-governing institutions, they require adequate authority and autonomy in the management of their revenue and expenditure.

One of the salient features of this act is – ‘Devolution of powers and responsibilities’ by the State Governments, i.e. the most important aspect in strengthening the Panchayats through devolution of 3Fs (i.e. functions, funds and functionaries) related to the matters listed in the Eleventh Schedule of the Constitution. Another is their enablement for preparing and implementing bottom-up participatory plans for economic development and social justice.

The States vary a great deal in both these respects. While some States have forged new paths, others are still to catch up. Of course, many States are trying out new approaches and mechanisms, and making corrections/improvements along the way.

It is clear from the Article 243-G of the Constitution that the legislature of a state **may**, by law, endow the Panchayats with such powers and authority as may also contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to (a) the preparation of plans for economic development and social justice (b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the 11th Schedule.

It is, however, not mandatory on the part of the state government to implement this because the word '*may*' is used in this article. It implies that power sharing with Panchayats depends on the political leadership at the state level. As a result, decentralisation to rural governments has,

in reality, tended to be a patch-work of de-concentration, delegation and devolution.

As per the Constitution (73rd Amendment) Act, 1992, the state governments were supposed to transfer to Panchayats functions pertaining to 29 subjects listed in the 11th Schedule of the Constitution, appended hereinbelow.

As far as functioning of the PRIs are concerned some States are running the Panchayat system very effectively like Kerala, Karnataka, West Bengal, Tamil Nadu, Rajasthan & Maharashtra while some states are lagging behind. The main reasons among others (detailed below) behind this situation were either non devolution or partial devolution of responsibilities.

Study revealed that only Karnataka, Kerala, Rajasthan, Sikkim, Tamil Nadu, Hariyana and West Bengal have transferred all 29 functions to PRIs. States like Arunachal Pradesh, Assam, Bihar, Jharkhand, Goa, Gujarat, Andaman and Nicobar Island, Chandigarh and Pondicherry either have partially devolved or not devolved any functions (a statement of devolution of fund/functions & functionaries so far been made by different

States & UTs is appended hereinafter to this lesson). Although several states have given a number of responsibilities to the Panchayats, these have not been accompanied by the requisite devolution of funds and functionaries to the PRIs. Fiscal devolution has lagged functional devolution in India. For functions devolved on the Panchayats, funds are still released from above making the Panchayats to carry the agency functions of Union/State governments. In other words, in varying degrees devolution remains *de jure* rather than *de facto*.

Detailed analysis of 'why are the Panchayats not delivering in many States?' revealed some reasons for their uninspiring performance. These are:

1. **Lack of adequate devolution:** Many States have not taken adequate steps to devolve 3Fs to the PRIs to enable them to discharge their constitutionally stipulated functions. While SFCs have submitted their recommendations, not many States have implemented these or taken steps to ensure the PRI's fiscal viability.

2. **Excessive control by bureaucracy:** In some States, the GPs have been placed in a position of subordination: GP Sarpanches

have to spend extraordinary amount of time visiting Block Offices for funds and/or technical approval. These interactions with the Block staff office distort the role of a Sarpanch as elected representative.

3. **Tied nature of funds:** The activities stated under a certain scheme are not always appropriate for all parts of the district GP. This results in unsuitable activities being promoted or an under-spend of the funds.

4. **Overwhelming dependency on government funding:** Statistics show the overwhelming dependence of Panchayats on government funding. When Panchayats do not raise own resources and instead receive funds from outside, people are less likely to request a social audit and the Panchayats less accountable.

5. **Reluctance to use fiscal powers:** is the Panchayats have the right to levy tax on property, business, markets, fairs and also for services provided, like street lighting or public toilets etc. Very few Panchayats use their fiscal power to levy and collect taxes. The argument pushed by Panchayat heads is that it is difficult to levy tax on your own constituency, especially when you live in

the community.

Non-harmonisation: There is lack of harmony of State Acts and Rules, central legislations and programmes with the 73rd Amendment.

Status of the Gram Sabha (GS):

Empowerment of GSs can be a powerful weapon for transparency, accountability, inclusive growth and social audit. This can be and is being done in two ways. In the guidelines of different Ministries for Central Schemes, specific functions for GS are being proposed by MoPR. Some States have also provided for specific functions of the GS and Ward Sabha under their Panchayat Laws. The Ministry will take up with the other States, which have not made such provisions, to include the same in the Panchayat Laws.

There are still many unfinished agenda, such as:

- Panchayats quite often are unable to function efficiently: due to insufficient and capable staffing, office space & infrastructure.
- Building of sound organisational capacity of PRIs is yet to be made.
- Building of capacity of elected representatives/officials is also required.

- Strengthening of accountability of PRIs is needed.
- True Integrated decentralised planning is yet to happen (Art. 243ZD): largely due to non-cooperation from various corners and line Departments.
- Devolution of 3 Fs is highly uneven across States: one reason is that Art 243G gives 'discretion' to the States.
- Effective fiscal decentralization is lacking.
- Sound financial information system is absent.
- Implementation of PESA needs urgent attention: which will address people's dissatisfaction in tribal/forest Areas.
- Effective functioning of State Finance Commission is needed: for financial sustenance of the PRIs.
- Elected Village Councils in the 6th Schedule Area of NE States need to be established: for meeting the aspirations of the diverse people and communities.
- Participatory and integrated planning based on good database and requisite expertise are absent.

Devolution and Panchayat Empowerment and Accountability Incentive Scheme (PEAIS)/ Devolution Index (DI).

The Panchayat Empowerment and Accountability Incentive Scheme (PEAIS) aims at encouraging States to adequately empower the Panchayats and put in place systems for bringing about efficiency, transparency and accountability of the Panchayats. Performance of States in these respects is measured through a Devolution Index (DI). Token award is also given to the States which rank high on the DI. The DI has been improved continuously over the years since the inception of the scheme in 2005-06. Since 2007-08, evaluation of States under PEAIS is based on a two-stage assessment. The first stage, called the Framework Criteria, was based on the following 4 fundamental Constitutional requirements: (i) Establishment of State Election Commission; (ii) Holding of elections to the PRIs;

(iii) Setting up State Finance Commission; (iv) Constitution of the District Planning Committees (DPCs).

States that fulfilled each of these 4 fundamental requirements qualified for

evaluation in terms of DI. The indicators for the DI aim at assessing the state of devolution in respect of the 3Fs. DIs developed for PEAIS so far do not specifically capture the degree of Panchayat accountability and performance.

In 2010-11, the DI was improved further as the extent of devolution of powers by the States to Panchayats was assessed along with cumulative performance. For the incremental performance, initiatives taken by the States after 1st April 2009 for strengthening Panchayats were assessed along three dimensions i.e. the extent to which the initiatives led to: (i) institutional strengthening, (ii) process improvement; and (iii) improved delivery of services. On the Incremental Devolution Index,

Rajasthan, which has devolved the functions of primary health, education, agriculture, social justice and empowerment and women and child development, along with funds and functionaries was adjudged the best performer. Kerala, Maharashtra, Karnataka and Haryana were ranked after Rajasthan on the Incremental Devolution Index.

From 2011-12, it is proposed to also assess the performance of Panchayats. For this, State- specific indicators will be developed

based on model indicators, questionnaire and marking scheme devised by MoPR.

The main features of the 73rd amendment

- The centrality of the Gram Sabha to decentralise governance.
- Uniform three-tier PRI structure with village, block and district levels.
- Direct election to all seats for all members of all levels.
- Proportionate reservation of Panchayat seats and offices of chairpersons at all levels for SC and ST, with one third reserved for SC/ST women.
- One third of total seats and chairperson offices reserved for women.
- Ability of the state legislature to provide seat and office reservations to backward classes.
- Uniform five-year term for Panchayats, with elections before the expiry of term; elections within six months if Panchayat dissolved.
- Protection against dissolution by amendment before the expiry of Panchayat term.
- Disqualification from Panchayat membership for those disqualified from election to state legislature.
- Independent State Election Commission to supervise preparation of electoral rolls and control electoral process.
- Twenty-nine subjects eligible for devolution to Panchayats
- Powers to states regarding which subjects to devolve.
- Setting up a State Finance Commission (SFC) once in five years to review PRI financial position and make suitable recommendations for fund distribution

List of 29 subjects in the 11th Schedule of the Constitution.

1. Agriculture, including agricultural extension
2. Land improvement, implementation of land reforms, land consolidation and soil conservation
3. Minor irrigation, water management and watershed development
4. Animal husbandry, dairy and poultry
5. Fisheries
6. Social forestry and farm forestry
7. Minor forest produce
8. Small scale industries, including food processing industries
9. Khadi (homespun cloth), village and cottage industries
10. Rural housing
11. Drinking water
12. Fuel and fodder
13. Roads, culverts, bridges, ferries, waterways and other means of communication
14. Rural electrification, including distribution of electricity
15. Non-conventional energy sources
16. Poverty alleviation programmes
17. Educational including primary and secondary schools
18. Technical training and vocational education
19. Audit and non-formal education
20. Libraries
21. Cultural activities
22. Markets and fairs
23. Health and sanitation, including hospitals, primary health centres and dispensaries
24. Family welfare
25. Women and child development
26. Social welfare, including welfare of the handicapped and mentally retarded
27. Welfare of the weaker sections and in particular of the scheduled castes and the scheduled tribes
28. Public distribution system
29. Maintenance of community asset

| Status of devolution of departments/subjects with funds, functions and functionaries to the Panchayati Raj Institutions for Major States/UTs. | | | | |
|--|---------------------------|---|--|---|
| Sl.No | States/UTs | No. and names of the Departments/subjects Transferred to Panchayats with respect to | | |
| | | Funds | Functions | Functionaries |
| 1 | Andaman & Nicobar Islands | Grant-in-aid is released to PRI's to discharge their functions | All the functions (29 subjects) have been transferred to the PRIs | 639 functionaries of various departments have been transferred to the PRIs. |
| 2 | Andhra Pradesh | Only Gram Panchayats (GPs) are empowered to collect taxes. Governments Orders (GOs) issued for devolving funds of 10 departments. | 22 GOs issued during 1997-2002. Further, 10 line departments have devolved certain powers to PRIs. | Functionaries are under the administrative control of their respective line departments but they are partially accountable to PRIs. |
| 3 | Arunachal Pradesh | PRIs do not collect taxes. Transfer of funds by departments has not taken place. | 29 subjects have been devolved. GOs covering 20 departments have been issued, but not yet implemented. | Functionaries have not been transferred. |
| 4 | Assam | PRIs are empowered to collect taxes but cannot enforce. Main source of revenue is lease rent from markets, river banks and ponds. | Activity-mapping done for 23 subjects. But GOs have been issued only for 7 subjects by 6 departments. | There has been very minimal devolution of functionaries. Officials continue to report to departments. |
| 5 | Bihar | No taxes are collected by PRIs but a proposal regarding the same is under consideration of State Government. | Activity mapping has been conducted. 20 line deptts. have issued GOs. | Departmental staff are answerable to departments. Angandwadi workers, teachers and health workers are appointed by PRIs. |
| 6 | Chhattisgarh | GP is authorized to collect various types of taxes. Funds for 12 departments have been devolved. | Activity Mapping of 27 matters has been undertaken. GOs not issued. | Panchayat make recruitments for 9 departments. |
| 7 | Goa | Panchayats levy 11 types of taxes. Untied funds are given to Panchayats. | 18 matters are devolved to GPs, while 6 are devolved to ZPs. | PRIs have their own core staff for the execution of works. |
| 8 | Gujarat | 8 major taxes are collected by PRIs. In 2008-09, 13 departments allocated funds to PRIs | 14 functions have been completely devolved and 5 are partially devolved. | GOs have been issued for devolution of functionaries for 14 functions. |
| 9 | Haryana | GPs generate revenue from lease of Panchayat land, liquor cess and rental of Panchayat premises. | Panchayati Raj Act devolves 29 functions. GOs have been issued for 10 deptts. | There is no significant devolution of functionaries. |
| 10 | Himachal Pradesh | Only GP is empowered to levy taxes. Funds have not been transferred. | 27 out of 29 subjects have been devolved to PRIs. | Functionaries have not been transferred to PRIs. |
| 11 | J&K | State Govt. has issued GO notifying activity mapping. Funds have been devolved in a limited sense. Functionaries have been identified in the Activity Mapping document which will assist Panchayats in carrying out assigned functions but have not been transferred. | | |

| | | | | |
|----|----------------|--|--|--|
| 12 | Jharkhand | Elections to PRIs were held in November- December 2010 for the first time since 73rd CAA came into force. Activity Mapping has not been done so far. | | |
| 13 | Karnataka | PRIs collect 7 types of taxes. Panchayati Raj Act provides the mandatory transfer for untied funds to PRIs. | Karnataka has delegated all 29 subjects to PRI by notifying Activity Mapping. | All Panchayat employees function under dual control of the Deptts. concerned and the PRIs. |
| 14 | Kerala | GPs have tax domain of 9 types of taxes. Untied funds and funds for specific purposes by deptts are given to PRIs. | Activity mapping for all 29 functions done and activities devolved to Panchayats. | PRIs have full managerial and part disciplinary control over transferred functionaries. |
| 15 | Madhya Pradesh | GPs are empowered to collect taxes. Funds for 13 departments covering 19 matters are released to PRIs. | GOs containing the Activity Mapping in respect of 25 matters pertaining to 22 deptts. have been issued. | Functionaries for 13 departments have been transferred to the PRIs. There is a State Panchayat Service |
| 16 | Maharashtra | ZP and GP collect taxes. Grants for 11 departments are transferred to PRIs. | 11 subjects have been fully devolved. For 18 subjects, schemes are implemented by PRIs. | Class III and Class IV employees at all levels are Zilla Parishad employees. |
| 17 | Manipur | Five Departments have issued GOs transferring funds to PRIs. | GOs have been issued devolving functions related to 22 departments. | 5 Departments have issued GOs transferring functionaries to PRIs. |
| 18 | Orissa | PRIs collect 6 types of taxes. There is no clear devolution of untied funds. | 11 departments have devolved 21 subjects. | Officials of 11 departments are accountable to PRIs. |
| 19 | Punjab | Main source of income of GP is from auction of Panchayat land. There is no clear devolution of funds. | The devolution of 7 key departments relating to 13 subjects approved. | No functionaries have been transferred to PRI by line departments. |
| 20 | Rajasthan | 5 departments have issued GOs transferring funds to PRIs up to district level. 10% untied fund to PRIs. | Five Departments have transferred all functions up to district level to PRIs. Fresh Activity Mapping of above 5 Departments has been done. | 5 departments have transferred all functionaries upto district level to PRIs. |
| 21 | Sikkim | PRIs do not collect taxes. Funds are being transferred by 17 departments. 10% of total fund of each department is given to Panchayats. Untied funds are given to PRIs. | All 29 subjects are devolved as per legislation. Activity Mapping has been conducted for 20 subjects covering 16 departments. | Employees are under the control of PRIs, but Panchayats exercise limited control over them. |
| 22 | Tamil Nadu | Only village Panchayats have the power to levy taxes. 9% of the States own tax revenue devolved to Local Bodies, of which rural local bodies will receive 58% share. | Government of Tamil Nadu has delegated supervision and monitoring powers of 29 subject to PRIs | There is no significant devolution of functionaries. |
| 23 | Tripura | Part funds related to PWD Department, primary schools and Social Welfare | So far GOs have been issued devolving irrigation schemes, | Functionaries of 5 subjects for which functions have |

| | | | | |
|----|---------------|--|--|---|
| | | and social education department and pension funds have been transferred to the Panchayats. Untied funds are also transferred to PRIs. | primary schools and activities related to adult and non-formal education, women and child development and social welfare. So far GOs have been issued devolving irrigation schemes, primary schools and activities related to adult and non-formal education, women and child development and social welfare. | devolved, have been transferred to Panchayats. |
| 24 | Uttar Pradesh | All 3 tiers have the power to collect taxes. | 16 subjects relating to 12 departments have been devolved to PRIs. | PRIs do not have control over functionaries. |
| 25 | Uttarakhand | Only ZPs collect taxes. Funds are made available to PRIs for activities for only 3 functions. | Master GO on transferring financial and administrative powers on 14 subjects has been issued in 2003. | Supervisory role over functionaries related to 14 subjects. |
| 26 | West Bengal | GPs can impose and realize taxes. Untied funds are allocated under the TFC grant as well as SFC grant. 5 departments have opened Panchayat Window in their budgets. | State Govt. agrees with transfer of these 28 subjects. 14 departments have so far issued matching GOs transferring 27 subjects. | The Panchayat employees have been made into different district cadres. Other than the posts created in the Panchayat bodies, 7 departments of the State Govt. have devolved functionaries |
| 27 | Daman & Diu | Not available | 12 subjects are fully devolved and 10 subjects are partially devolved. | Functionaries for 13 departments have been transferred to PRIs. |
| 28 | Puducherry | Panchayats collect taxes and receive funds from the state budget under the community development sector. | 22 functions have been devolved to the PRI. | Devolution of functionaries has not been done yet. |
| 29 | Lakshadweep | Entire Plan and Non Plan budget required for Schemes and Programs being implemented by 5 departments viz Education, Medical & Health Services, Fisheries, Animal Husbandry, and Agriculture is transferred to the District Panchayat and Village (Dweep) Panchayats. | All Schemes and programmes being implemented by five major departments, viz. Education, Medical & Health Services, Fisheries, Animal Husbandry, and Agriculture have been transferred to the PRIs w.e.f. 1st April 2010. | Entire establishments of five major departments, viz Education, Medical & Health Services, Fisheries, Animal Husbandry, and Agriculture except Director and few staff have been transferred to District Panchayat and Village (Dweep) Panchayats. |
| 30 | Chandigarh | | A committee constituted by the Chandigarh Administration recommended transfer of some functions of 12 | |

| | | | | |
|--|--|--|--|--|
| | | | Departments. However, the State Govt. felt that such an exercise of devolving the functions to PRIs would only be an interim measure because fast urbanization would result in villages becoming part of Municipal Corporation in near future. | |
|--|--|--|--|--|

Note: Mizoram, Meghalaya and Nagaland are exempted.

- Delhi has no Panchayats.
- Information is not available for UT of Dadra & Nagar Haveli.


Source: MOPR's report on Panchayat.

Slide 1

Session 2

The back ground for 73rd Amendment to the Constitution. Details of Articles inserted in the 73rd Amendment.

Amendment for devolution of power to the Panchayati Raj Institutions and its actual accomplishment




Training Module on Legislative and Accounting Framework of PRIs.

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Slide 4

- **Though the Panchayati Raj Institutions have been in existence for a long time**
- **It has been observed that these institutions have not been able to acquire the status and dignity of viable and responsive people's bodies due to a number of reasons :-**

- 1. Absence of regular elections,**
- 2. Prolonged suppressions**



Training Module on Legislative and Accounting Framework of PRIs.

contd SI 5
4

Slide 2

Session Overview

In this session following points will be discussed:

- 1. The back ground for 73rd Amendment to the constitution.**
- 2. The Summary discussions made in the "Statement of objectives and reasons for such amendments".**




Contd. SI-3
Training Module on Legislative and Accounting Framework of PRIs.

2

Slide 5

- 3. Insufficient representation of weaker sections like Scheduled Castes, Scheduled Tribes and women**
- 4. Inadequate devolution of powers and**
- 5. Lack of financial resources.**



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contd...SI-6
5

Slide 3

- 3. The details of Articles inserted in the Amendment.**
- 4. Current status of Panchayats.**
- 5. Actual accomplishment of the amendments in PRI sectors.**




Contd. To SI-4
Training Module on Legislative and Accounting Framework of PRIs.

3

Slide 6

- **Accordingly, it is proposed to add new Part relating to Panchayats in the Constitution.**
- **The summarized recommendations were as follows.**

- i. The Gram Sabha or village assembly as a deliberative body for decentralized governance has been envisaged as the foundation of the Panchayati Raj System.**
- ii. A uniform three-tier structure of panchayats (local Government) at village, intermediate or block and district levels may be set up.**



Contd. To SI-4
Training Module on Legislative and Accounting Framework of PRIs.

3

Slide 7

iii. All the seats in a panchayat at every level are to be filled by elections from respective territorial constituencies.

iv. Not less than one-third of the total seats for membership as well as office of chairpersons of each tier has to be reserved for women.

v. Reservation for weaker castes and tribes (SCs and STs) has to be provided at all levels in proportion to their population in the panchayats..

Contd..SI-8

Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 10

Current Status of the Panchayats

- As per SoPRs (published in 2006, 2008 and 2010) overall, the mandatory provisions specified in the Constitution have been implemented in the last decade and a half
- All Part IX States (except in Jharkhand due to a court case) held regular elections through the State Election Commissions.
- All the States have implemented reservation for women, Scheduled Castes and Scheduled Tribes

contd. SI-11

Training Module on Legislative and Accounting Framework of PRIs. 11

Slide 8

vi. To supervise, direct and control the regular and smooth elections to panchayats, a State Election Commission has to be constituted in every State and UT.

vii. The Act has ensured constitution of a State Finance Commission in every State/UT, for every five years, to suggest measures to strengthen finances of Panchayati Raj Institutions.

viii. To promote bottom-up-planning, the District Planning Committee (DPC) in every district has been accorded constitutional status.

ix. An indicative list of 29 items has been given in Eleventh Schedule of the Constitution. Panchayats are expected to play an effective role in planning and implementation of works related to these 29 items.

Contd..SI-9

Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 11

- State Finance Commissions (SFCs) have been constituted and in many States, their recommendations have been acted upon.
- All the States (excluding Uttarakhand and Jharkhand) have constituted District Planning Committees and most have initiated decentralised planning processes.

Training Module on Legislative and Accounting Framework of PRIs. 11

Slide 9

- The main aim of 73rd Amendment was decentralization of service delivery to local governments.
- In order to implement Article 40 of the Constitution, the 73rd Constitution Amendment Act, 1992 inserted Articles 243 to 243-O which tried to address some of the problems encountered by PRIs in previous years
- Thus the 73rd Constitutional Amendment consolidated many of the gains achieved in establishing PRIs, and imposed a political uniformity on the structure and working of the third tier.

Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 12

Devolution of powers to PRIs and actual accomplishment

- One of the salient features of this act is - 'Devolution of powers and responsibilities' by the State Governments, i.e.
- the most important aspect in strengthening the Panchayats through devolution of 3Fs (i.e. functions, funds and functionaries) related to the matters listed in the Eleventh Schedule of the Constitution.


Another is their enablement for preparing and implementing bottom-up participatory plans for economic development and social justice

contd. SI-11

Training Module on Legislative and Accounting Framework of PRIs. 11

Slide 13


- As per the Constitution (73rd Amendment) Act, 1992, the state governments were supposed to transfer to Panchayats functions pertaining to 29 subjects listed in the 11th Schedule of the Constitution
- As far as functioning of the PRIs are concerned some States are running the Panchayat system very effectively like Kerala, Karnataka, West Bengal, Tamil Nadu, Rajasthan & Maharashtra while some states are lagging behind
- The main reasons among others behind this situation were either non devolution or partial devolution of responsibilities



Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 14

- Although several states have given a number of responsibilities to the Panchayats, these have not been accompanied by the requisite devolution of funds and functionaries to the PRIs
- For functions devolved on the Panchayats, funds are still released from above making the Panchayats to carry the agency functions of Union/State governments



Training Module on Legislative and Accounting Framework of PRIs. 6

Session 3

Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad and their functions.



- Instructor's Guide
- Participants' Note
- PowerPoint Slides

| Session Title: Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad and their functions. | | Session Guide |
|--|---------------------|------------------------|
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad and their functions. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> • Formation & structure of Gram Panchayats, Panchayat Samity & Zilla Parishad. • Functions of different levels of Panchayat Raj Institutions. | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the different Acts of different States under which GP, PS & ZPs were formed. Their Structures & Functions. Thank the participants and bring the session to a close. | | |

Session Title

Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad, Gram Sabha & District Planning Committee.

In this session 3 following points will be discussed:

1. Formation & Structure of Gram Panchayat, Panchayat Samity and Zilla Parishad.
2. Formation of Gram sabha/ Sansad.

In Session 4 power/functions/activities of Gram Panchayat, Panchayat Samity and Zilla Parishad will be discussed.

Part-IX of the Constitution envisages a three-tier system of Panchayats namely, (a) Gram Panchayat at the village level; (b) Zilla Parishad at the district level; and (c) the intermediate Panchayat Simiti /Taluka Panchayat between the village and the district Panchayat. These Panchayats are known by different names in different States-

[Gram Panchayats, Grama Panchayats, Gaon Panchayats and Village Panchayats, Halqa Panchayats (in J&K)] at village level.

(Mandal Parishads, Anchal Samitis, Anchalik Samitis, Block Panchayats, Janpad Panchayats, Panchayat Union, Panchayat Samitis, Kshetra Panchayats and Taluka Panchayats) at intermediate (Block) level.

[Zilla Parishads, Zilla Panchayats and District Panchayats, District Parishad (in Tamil Nadu), Commune Panchayat (in Puduchery)] at District level.

The Act also makes a provision for a Gram Sabha within the area of Panchayat at the village level, to exercise such powers and perform such functions as the Legislature of the State may, by law, provide. Gram Sabha is the lowest tier of PRI sectors constituted with the idea of participation of more people at the grass root level for the betterment of the rural areas.

PESA envisages self-governance through the Gram Sabha, and, while extending the Panchayati Raj structure as envisaged in Part IX of the Constitution, gives wide powers to the Gram Sabhas in Schedule V areas. Study revealed that all the tiers in different names are functioning in 24 States excepting Sikkim, Manipur, Goa & Puduchery where two tiers are existing. In

Sikkim, Zilla Panchayat & Gram Panchayat, in Manipur, Zilla Parishad and Gram Panchayat in Goa, Zilla Panchayat & Village Panchayat, & in Puduchery, Commune Panchayat & Village Panchayat are functioning. A list of existence of such bodies State-wise is appended to this lesson.

- According to Article 243B(2) of the 73rd Amendment Act, 1992 Panchayat at the Intermediate level may not be constituted in a State having a population not exceeding 20 lakhs.

The Statewise Panchayati Raj Acts under which Panchayati Raj Institutions are guided are detailed in the following table:

| Name of the State | Year of Passing PR Act |
|---------------------------|---|
| KERALA | Kerala P.Act, 1994 |
| ASSAM | Assam P. Act, 1994 |
| ARUNACHAL PRADESH | Arunachal Pradesh Panchayat Raj Act 1997 |
| ANDHRA PRADESH | The Andhra Pradesh Panchayat Raj Act,1994 |
| ANDAMAN & NICOBAR ISLANDS | Andaman and Nicobar Islands (Panchayats) Regulation. 1994 |
| CHHATTISGARH | The Chhattisgarh Panchayat Raj Adhinyam,1993 |
| KARNATAKA | The Karnataka Panchayat Raj Act 1993 |

| | |
|------------------|--|
| GUJRAT | Gujarat Panchayat Act, 1993 |
| HARYANA | The Haryana Panchayati Raj Act, 1994 Haryana Panchayati Raj Rules, 1995 |
| HIMACHAL PRADESH | Himachal Pradesh Panchayati Raj Act, 1994 |
| JHARKHAND | The Jharkhand Panchayati Raj Act, 2001 (Jharkhand Act-06 of 2001) |
| JAMMU & KASHMIR | Jammu & Kashmir Panchayat Raj Act 1989 |
| PUNJAB | Punjab Panchayati Raj Act (Punjab Act 9 of 1994 |
| UTTAR PRADESH | The U.P. Panchayat Raj Act, 1947 (U.P. Act No. 26 of 1947) with latest amendment Uttaranchal Act No. 5 of 2007) |
| UTTARAKHAND | Uttarpradesh Panchayat Raj Act, 1947, Uttaranchal (Amendment) Act, 2002 (Act No. 07 of 2002) |
| ODISHA | Odisha Gram Panchayat Act, 1964. Odisha Panchayat Samiti Act, 1960 Odisha Zilla Parishad Act,1991 |
| RAJASTHAN | Rajasthan Panchayat Raj Act, 1994 |
| SIKKIM | Sikkim Panchayat Act 1993 |
| TRIPURA | The Tripura Panchayats Raj Act, 1993 |
| TAMIL NADU | The Tamil Nadu Panchayats Raj Act 1994 |
| MADHYA PRADESH | Madhya Pradesh Panchayati Raj avam Gram Swaraj Adhinyam 1993 (PR |

| | |
|---------------------|---|
| | Act 1993) |
| MIZORAM | Under Schedule VI (PRI System) is not applicable. |
| NAGALAND | -do- |
| MAHARASTRA (NAGPUR) | The Maharashtra Village Panchayat Act, 1958 |
| MAHARASTRA (MUMBAI) | The Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (Act No.V of 1962) The Maharashtra Zilla Parishads and Panchayat Samitis (Amendment) Act, 2013 The Maharashtra Village Panchayat Act (Act No.III of 1959) The Maharashtra Village Panchayat (Third Amendment) Act, 2012. |
| MANIPUR | Manipur Panchayat Raj Act, 1994 Manipur Gram Panchayat and Zilla Parishad Rules, 1995. |
| BIHAR | Bihar Panchayati Raj Act, 2006 |
| WEST BENGAL | West Bengal Panchayati Raj Act, 1973, W.B. Gram Panchayat Act, 19... W.B. Zilla Parishad & Panchayat Samiti Act, 1963. |
| GOA | Goa Panchayat Raj Act 1994 |

- Every State has different history of formation of Panchayati Raj System . A brief history of formation of Panchayat

Raj Institutions in West Bengal is detailed below.

Position in West Bengal

Statutorily constituted Panchayats were established in Bengal in 1870 when the Bengal Village Chowkidari Act was passed. The Bengal Local Self-Government Act of 1885, provided for a three –tier structure for rural Bengal. At the top, there was to be a district; at the middle level, a local board covering a sub-division; and at the lowest level the union committee with jurisdiction over a union or a group of villages.

The Bengal Village Self-Government Act of 1919 provided for the creation of union boards consisting of a group of villages. The union boards were given a variety of functions. There were normal civic functions, such as sanitation, water supply, maintenance of roads or drains, or regulatory functions, such as control on construction of buildings. There were some development functions as well, such as, promotion of cottage industry, or establishment of primary schools or libraries. The boards could exercise

control over the rural police (Chowkidars and Dafadars¹).

A new class of officers, known as circle officers, was appointed by the government to supervise functioning of a group of boards and to act as a link between the government and the self-governing institutions.

The West Bengal Panchayat Act of 1957 replaced the Village Self-Government Act of 1919 and restructured local self-government in villages by introducing two-tier Gram Panchayats and Anchal Panchayats in place of the union boards. Besides, a new concept called the Gram Sabha was introduced. The Gram Sabha consisted of all persons whose names were in the electoral rolls of the West Bengal Legislative Assembly. Each Gram Sabha consisted of persons, residing in one or two villages. The executive arm of the Gram Sabha was the Gram Panchayat which consisted of members elected by the members of the Gram Sabha. The Panchayat was given functions but not the

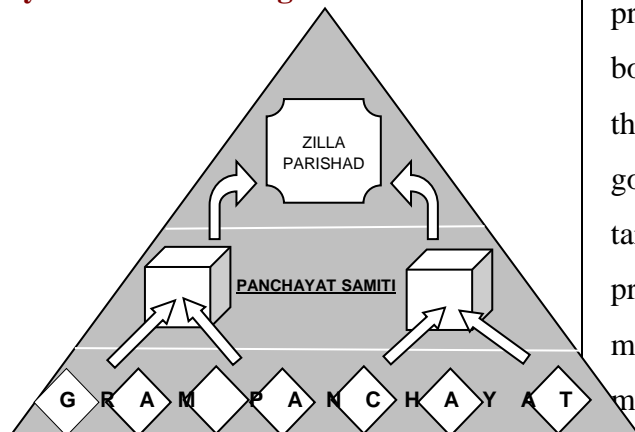
¹ At present this post has been abolished. A new post 'Gram Panchayat Karmees' has been introduced.

authority to raise funds. Power to levy and collect rates and fees was given to another body known as the Anchal Panchayat. For every eight to nine Gram Panchayats there was an Anchal Panchayat. The area of operation of the Anchal Panchayat was more or less coterminous with its predecessor, the union board. In 1963, the West Bengal Zilla Parishads Act was passed to provide for the remodeling of local government. Under this Act, two corporate bodies were created – 'Anchalik Parishads' at the block level and 'Zilla Parishads' at the district level. There was no provision for direct election to any of these bodies. The Anchalik Parishad consisted of all the Pradhans of the Anchal Panchayat within the area.

The 1957 Act providing for Gram and Anchal Panchayats and the 1963 Act providing for Anchalik and Zilla Parishads formed the basis of the Panchayati Raj structure of the state. The West Bengal Panchayat Act was passed towards the end of 1973, with amendments made from time to time, remained effective in the decades that followed.

With this act, the state's Panchayat system fell in line with the all-India pattern of the three-tier system as illustrated below:

Structure of Three-tier Panchayati Raj System in West Bengal.



In June 1977, the new Govt. came into power. Immediately thereafter, the new government embarked upon a programme of rural development based on land reform and decentralization of power through the Panchayats. After making some amendments to the 1973 Act, the government held elections on 4 June 1978 to all the three tiers of Panchayats. Thus began a new chapter for Panchayati Raj Institutions in the state. By holding Panchayat elections with regularity every fifth year since 1978, West Bengal set an example to all other states.

It is widely held that West Bengal's

Panchayati Raj is a success story. PRIs have been given substantial responsibility in rural development works, particularly in the implementation of poverty alleviation programmes. As a result, these local bodies are today an indispensable part of the delivery system of the state government in the rural area. Now, no target-group oriented development programme, nor programmes that call for mobilization of rural people, such as, mass literacy, are undertaken by the state government without involving these bodies.

Composition of Gram Panchayat, Panchayat Samity & Zilla Parishad.

Since the members of a PRI body are constitutionally elected by the local people the members are public representatives of that Local body. Thus a Panchayat Raj Institution consists of both from constitutionally elected members by the people and Govt. Official side also.

Official cadre may be consisted of following staff:

(a) Gram Panchayat Cadre

GP should normally have four categories of staff:

- Core staff for its internal processes: PDO/Secretary, Accountant, Technical Assistant and Computer Operator,
- Scheme Specific Staff: for example, Rozgar Sahayak for MGNREGA,
- Functional Staff: such as Teachers, ASHA, Anganwadi workers,
- Contractual skilled workers: such as Pump Operator, Motor Mechanic, Hand Pump Mechanic, Electrician, Sanitary workers.

(b) **District Panchayat Cadre**-District Panchayat Cadre (DP Cadre) could comprise of officials who have jurisdiction over areas larger than a GP.

The DP cadre could be constituted by a judicious mix of direct recruitments and Promotion from GP cadre.

Employees of DP cadre would supervise the work of the functionaries at the GP level. Examples of this would be: Extension Officers, Junior Engineers etc. Some employees listed above for GP cadre could also fall in this cadre.

c) **State Cadre**

GP cadre could serve as a feeding cadre to DP cadre.

Class I and II could be State cadre for which DP could be the feeding cadre.

The staff strength from Govt. side varies from State to State.

Different States has different Panchayat Raj Act and the constitution of the local bodies (GP, PS & ZP) provide the formation and structure of such bodies in each tier. Since, West Bengal is the pioneer in this area the constitutional provisions in regard to West Bengal are detailed below.

The constitutional provisions are more or less same in local bodies of other States.

Constitution of Gram Panchayat (GP)

Definition of Gram.

(Act 3(1) of the W.B. Panchayat Act, 1973).

The State Government has been empowered to form and constitute a Gram Panchayat for every Gram (village). To form a Gram/village, the State Government shall have to exercise its power by publishing a notification in the Gazette. The State Government may alter the area of any Gram by exclusion, inclusion, division or union.

Definition of Gram Sansad
(Act 16A of the W.B. Panchayat Act, 1973)

Every constituency of a GP shall have a Gram Sansad consisting of persons whose names are included in the electoral roll of the West Bengal Legislative Assembly for the time being in force pertaining to the area comprised in such constituency of the GP.

Definition of Gram Sabha
(Act 16B of the W.B. Panchayat Act, 1973).

Every Gram shall have a Gram Sabha consisting of persons registered in the electoral roll pertaining to the area of the Gram. Meetings of the Gram Sabha shall be presided over by the Pradhan (leader elected by the body) of the concerned GP or in his absence, by Upa-Pradhan.

Constitution of GP-
(Act 4 of the W.B. Panchayat Act, 1973)

1. For every Gram the State Government shall constitute a GP bearing the name of the Gram;

2. Persons whose names are included in the electoral roll pertaining to the area comprised in the Gram, shall elect by secret ballot from among themselves such number of members (not being less than five or more than thirty);

3. The GP shall consist of the following members:

- a. Members elected;
- b. Members of Panchayat Samiti, not being Sabhapati or Sahakari Sabhapati;

4. The members of a GP shall hold office for a period of five years from the date appointed for its first meeting and no longer. There shall be held a general election for the constitution of a GP within a period not exceeding five years from the date of the previous general election held for that GP;

5. A person shall not be qualified to be a member of GP, if:

- a. he is a member of any municipal authority; or
- b. he is in the service of the Central or the State Government or of a GP or PS or any undertaking of Central or State Government; or
- c. he has been dismissed from the service of the Central or a State Government or a body/company controlled by the Central or State Government for misconduct involving moral turpitude and five years have not

elapsed from the date of such dismissal;
or

d. he has been adjudged by a competent court to be of unsound mind;
or

e. he is an undischarged insolvent; or

f. he has not attained the age of twenty-one years on the date fixed for the scrutiny of nominations for any election.

6. Pradhan and Upa-Pradhan:

a. Every GP shall at its first meeting having a quorum, elect one of its members to be the Pradhan and another member to be the Upa-Pradhan of the GP;

b. The Pradhan and the Upa-Pradhan shall hold office for a period of five years;

c. The Upa-Pradhan shall exercise the powers, perform the functions and discharge the duties of the Pradhan until a new Pradhan is elected and assumes office or until the Pradhan resumes his duties:

- When the office of the Pradhan falls vacant by reason of death, resignation, removal or otherwise, or

- The Pradhan is by reason of leave illness or other cause, temporarily unable to act.

d. When the same circumstances arise in respect of Upa-Pradhan, the Pradhan shall exercise the powers of Upa-Pradhan.

e. A Pradhan or an Upa-Pradhan or a member of a GP may resign his office by notifying in writing his intention to do so to the authority and on such resignation being accepted the Pradhan/Upa-Pradhan/member shall be deemed to have vacated his office;

f. When the office of the Pradhan and Upa-Pradhan are both vacant or the Pradhan and Upa-Pradhan are temporarily unable to act;

The authority may appoint (for a period of thirty days at a time) a Pradhan and Upa-Pradhan from among the members.

Structure of Panchayat/ Anchalik Samity & Zilla Parishad /District Panchayat.

Constitution of PS

- The state government may divide a district into Blocks, comprising such contiguous Grams as may be specified in the notification

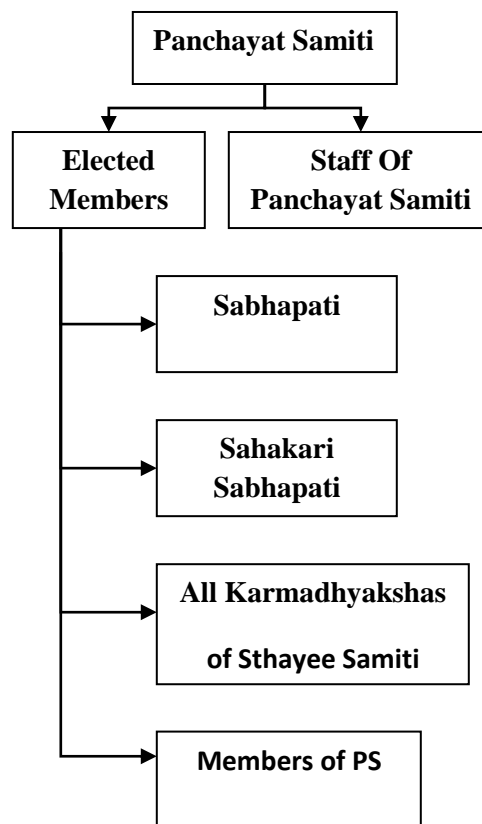
- May specify the name of the Block
- May specify the limits of such Block
- For every Block the state government shall constitute a PS bearing the name of the Block.

Organisational structure of Panchayat Samity/Anchal Samiti.

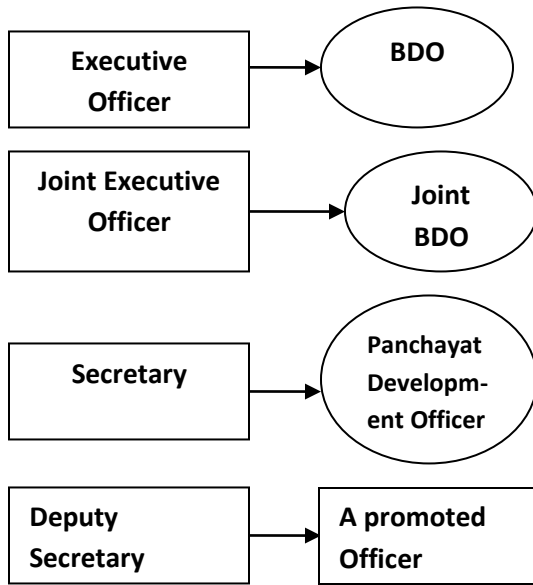
At the PS level, under the Chairmanship of the Sabhapati, the Block Development Officer (BDO) acts as the Executive Officer and the Joint Block Development Officer is the Joint Executive Officer. The Extension Officer for Panchayats (EOP) (now called Panchayat Development Officer) is the Secretary of the PS while most of the officers and other employees of the block set up have been placed at the disposal of the PS. Since the functions and the responsibilities of the office of the BDO and that of the PS are interdependent and complimentary to each other, they are lodged in the same premises and, except for a few regulatory functions, decisions are taken as the single unit of delivery system. Each of the PS also has 10 Sthayee Samitis (This may vary from State to State). As the functions of these Sthayee Samitis are the same as

in the ZP, the functions will be covered under 'Constitution of ZP'.

Structure of a Panchayat Samiti



Organisational linkage among state government officers and PS

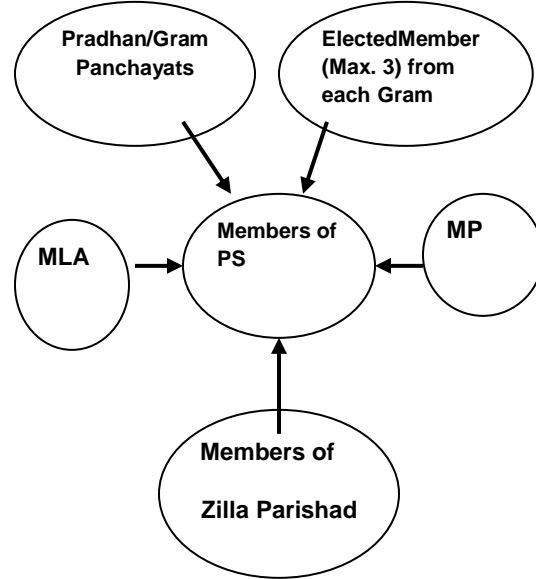


The PS shall consist of the following members:

- Pradhan of the GPs within the Block ex-officio
- Maximum three persons, whose names are included in the electoral roll pertaining to the area comprised in the Block, elected by secret ballot from each Gram within the Block
- MP and MLA, not being Ministers, from a constituency comprising the Block or any part thereof
- Members of the Council of States, not being Ministers, whose names are registered as electors within the area of the Block and

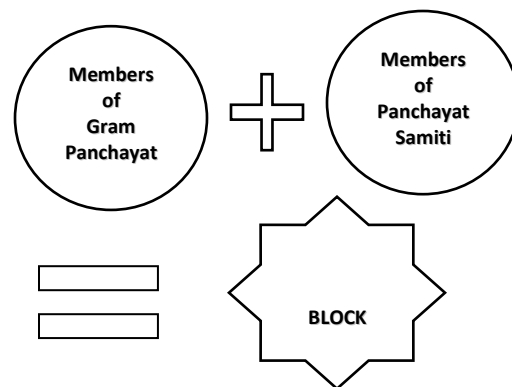
- Members of the concerned ZP, not being Sabhadhipati or Sahakari Sabhadhipati.

Composition of Elected Members



Block Sansad

Every PS shall have a Block Sansad consisting of all members of the GPs pertaining to the Block and all members of that PS.



Constitution of Zilla Parishad (ZP).

For every district, except the district of Darjeeling, the State Government shall constitute a ZP bearing the name of the district.

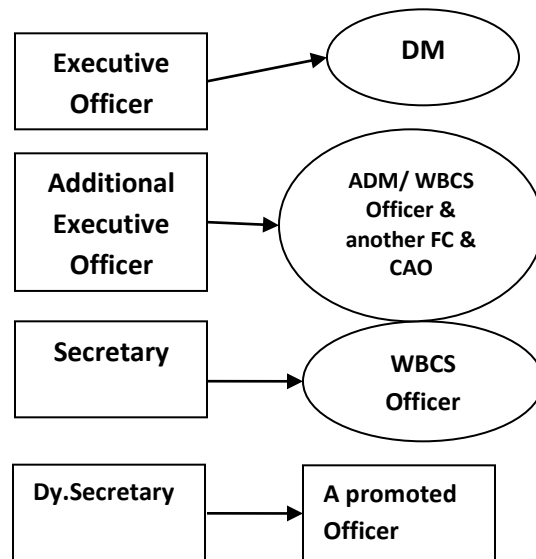
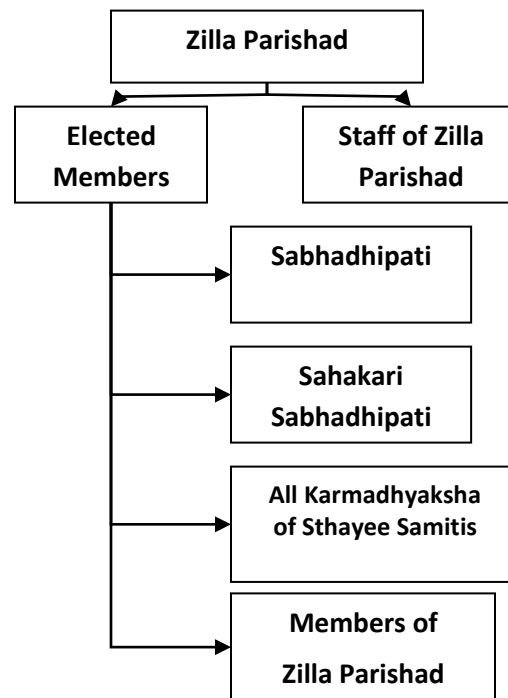
The ZP shall consist of the following members:

- Sabhapatis of the PS within the district, ex-officio;
- Maximum three persons, elected by secret ballot from block;
- MLA and MP; and,
- Members of Council of States as members of ZP.

Organisational structure of ZP

A ZP under the chairmanship of the Sabhadhipati is the key organisation at the district level and has the District Magistrate as the Executive Officer assisted by an Additional Executive Officer and a Secretary. A post of Deputy Secretary has also been created recently. The formal association of the District Magistrate with the ZP provides a strong linkage with other Government departments. A ZP functions through different Sthayee Samitis consisting of elected representatives and nominated Government officers. Karmadhyakshas are the head of these Sthayee Samitis, assisted by Secretaries who are Government officers.

Organisational linkage among state government officer and Zilla Parishad



Zilla Sansad

Zilla Sansad in every ZP shall comprise of:

- Pradhan of all GPs;

- Sabhapatis, Sahakari Sabhapatis, Karmadhyakshas of all PS; and,
- All members of ZP.

Traditional vs Formal village councils/District councils structure.

The traditional self governing village institutions are strong throughout NER, especially in the tribal territories. Formal institutions such as Village Council or Gram Sabha (under various State laws including the Sixth Schedule) are rather weak.

Nagaland has taken some ingenious measures in its Village Council Act, 1978. But there are some inherent anomalies therein like the Village Development Board (analogous to the Gram Sabha) being answerable to traditional Village Council (which is not an elected body) and an official functioning as its chairman. This traditional versus formal impasse is equally pervasive in Council Areas and other tribal territories in NER.

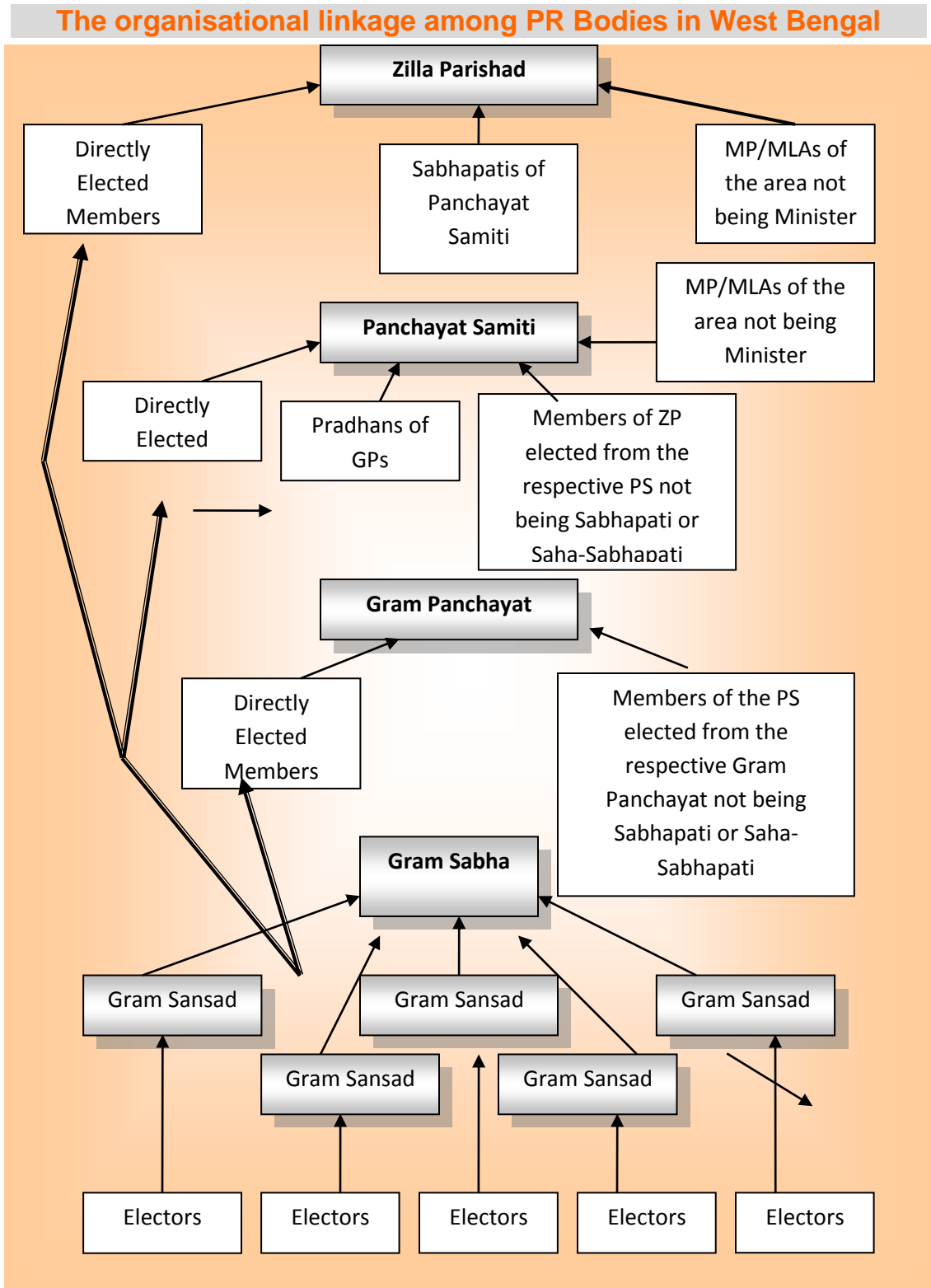
Another problem of Village Councils is that many of them do not have territorial constituencies or Wards. As a result, remote and smaller hamlets do not get fair deal.

(b) Variation in the Schedule VI framework
Moreover, the Schedule VI framework varies from State to State as follows.

There are Village Councils legislated by

the District Council in Tripura covered by one District Council and in Mizoram in two Districts covered by three District Councils. In Meghalaya and Assam, the District Councils have not legislated for constitution of Village Councils. Village Councils are also called Village Committee in Tripura and Village Authority in Manipur. However, for simplicity, they are called Councils in this lesson.

In Mizoram, in the Districts outside the Sixth Schedule areas, Village Councils exist under State law. In Nagaland, the State Law provides for Village Councils, but does not provide for District Councils. However, the Village Councils are headed by traditional chiefs and another body has been created by the Village Council for implementation of development programmes. Since such a body does not have independent legal status, it does not have the independence which is expected from a LSG. Besides, the existence of multiple bodies makes each of the organisations weak.



State/Union Territory-wise existence of various tiers of Panchayat

| Sl.No | States | Existence of tiers | | |
|-------|-------------------------------|---|--|--------------------------|
| | | Gram/Gaon/Village Panchayat | Taluk Panchayat/ Panchayat Samity etc. | District/Zilla Panchayat |
| 1 | Andhra Pradesh | GP | Panchayat Samity (PS) | ZP |
| 2 | Arunachal Pradesh | GP | Anchal Samity | ZP |
| 3 | Assam | Gaon Panchayat | Anchalik Panchayat | ZP |
| 4 | Andaman & Nicobar Island (UT) | GP | PS | ZP |
| 5 | Bihar | GP | PS | ZP |
| 6 | Chhattisgarh | GP | Janapad Panchayat | ZP |
| 7 | Goa | Village Panchayat | Not exists | ZP |
| 8 | Gujarat | Village Panchayat | Taluka Panchayat | District Panchayat |
| 9 | Haryana | GP | PS | ZP |
| 10 | Himachal Pradesh | GP | PS | ZP |
| 11 | Jammu & Kashmir | Halqa Panchayat | Taluka Panchayat | ZP |
| 12 | Jharkhand | GP | PS | ZP |
| 13 | Karnataka | GP | Taluk Panchayat | ZP |
| 14 | Kerala | GP | Block Panchayat | District Panchayat |
| 15 | Madhya Pradesh | GP | Janapad Panchayat | ZP |
| 16 | Maharashtra (NGP) | GP | PS | ZP |
| 17 | Maharashtra (Mumbai) | GP | PS | ZP |
| 18 | Manipur | GP | Not exists | ZP |
| 19 | Nagaland | PRI system not in existence. Here traditional Village Council exists. | | |
| 20 | Odisha | GP | PS | ZP |
| 21 | Punjab | GP | PS | ZP |
| 22 | Puduchery (UT) | Village Panchayat | Not exists | Commune Panchayat |
| 23 | Rajasthan | GP | PS | ZP |
| 24 | Sikkim | GP | Not exists | ZP |
| 25 | Tamil Nadu | Village Panchayat | Panchayat Union | District Parishad |
| 26 | Tripura | GP | PS | ZP |
| 27 | Uttar Pradesh | GP | Kshetra Panchayat | ZP |
| 28 | Uttarakhand | GP | Kshetra Panchayat | ZP |
| 29 | West Bengal | GP | PS | ZP |

Notes: Position of Daman, Diu & Lakhadeep is not available.

In addition to above Gram Sabha is also existing in almost all the States.

State-wise Number of Panchayat Institutions

| States | Village panchayat | Intermediate panchayat | District panchayat |
|--------------------------|-------------------|------------------------|--------------------|
| Andhra Pradesh | 21,649 | 1,098 | 22 |
| Arunachal Pradesh | 1,744 | 155 | 16 |
| Assam | 2,223 | 191 | 21 |
| Andaman & Nicobar Island | 67 | 7 | 2 |
| Bihar | 8,474 | 534 | 38 |
| Chhattisgarh | 9,820 | 146 | 18 |
| Goa | 190 | n.a. | 2 |
| Gujarat | 13,883 | 224 | 26 |
| Haryana | 6,155 | 124 | 21 |
| Himachal Pradesh | 3,243 | 77 | 12 |
| Jammu & Kashmir | 4,098 | 143 | 22 |
| Jharkhand | 4,423 | 259 | 24 |
| Karnataka | 5,631 | 176 | 30 |
| Kerala | 978 | 152 | 14 |
| Madhya Pradesh | 23,024 | 313 | 50 |
| Maharashtra | 27,935 | 353 | 33 |
| Manipur | 161 | n.a. | 4 |
| Odisha | 6,235 | 314 | 30 |
| Punjab | 13100 | 146 | 22 |
| Puduchery | 98 | n.a. | 10 |
| Rajasthan | 9,193 | 249 | 33 |
| Sikkim | 176 | n.a. | 4 |
| Tamil Nadu | 12,524 | 385 | 31 |
| Tripura | 511 | 26 | 8 |
| Uttar Pradesh | 51,972 | 821 | 72 |
| Uttarakhand | 7,555 | 314 | 30 |
| West Bengal | 3,351 | 341 | 18 |

Notes: n.a: not applicable.

Source: Ministry of Panchayati Raj, Government of India website


(<http://lgdirectory.gov.in/rptConsolidateforRuralLB.do>) & updated figures furnished by different State audit units.

Position as in 2014.

Slide 1

Session 3

Formation & Structure of Gram Panchayat, Panchayat Samity & Zilla Parishad, Gram Sabha & District Planning Committee.



Training Module on Legislative and Accounting Framework of PRIs.


1

Slide 4

The Act also makes a provision for a Gram Sabha within the area of Panchayat at the village level, to exercise such powers and perform such functions as the Legislature of the State may, by law, provide.

Gram Sabha is the lowest tier of PRI sectors constituted with the idea of participation of more people at the grass root level for the betterment of the rural areas

PESA envisages self-governance through the Gram Sabha, and, while extending the Panchayati Raj structure as envisaged in Part IX of the Constitution, gives wide powers to the Gram Sabhas in Schedule V areas



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4

Slide 2

Session Overview

In this session following points will be discussed:

1. Formation & Structure of Gram Panchayat, Panchayat Samity and Zilla Parishad.
2. Formation of Gram Sabha/Sansad.



Contd. SI-3


Training Module on Legislative and Accounting Framework of PRIs.

2

Slide 5

Study revealed that all the tiers in different names are functioning in 24 States excepting Sikkim, Manipur, Goa & Puduchery where two tiers are existing

Every State has different history of formation of Panchayati Raj System



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contd...SI-6


5

Slide 3

Part-IX of the Constitution envisages a three-tier system of Panchayats namely:

1. Gram Panchayat at the village level;
2. Zilla Parishad at the district level; and
3. the intermediate Panchayat Samiti /Taluka Panchayat between the village and the district Panchayat.

These Panchayats are known by different names in different States



Contd. To SI-4


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3

Slide 6

Composition of Gram Panchayat, Panchayat Samity & Zilla Parishad

Since the members of a PRI body are constitutionally elected by the local people the members are public representatives of that Local body. Thus a Panchayat Raj Institution consists of both from constitutionally elected members by the people and Govt. Official side also



Contd. SI-3

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6

Slide 7


Official cadre may be consisted of following staff:

(a) Gram Panchayat Cadre

GP should normally have four categories of staff:

- Core staff for its internal processes: PDO/Secretary, Accountant, Technical Assistant and Computer Operator,
- Scheme Specific Staff: for example, Rozgar Sahayak for MGNREGA,
- Functional Staff: such as Teachers, ASHA, Anganwadi workers,
- Contractual skilled workers: such as Pump Operator, Motor Mechanic, Hand Pump Mechanic, Electrician, Sanitary workers

contd SI 8



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Slide 10

Structure of Panchayat/ Anchalik Samity & Zilla Parishad /District Panchayat

Constitution of PS

- The state government may divide a district into Blocks, comprising such contiguous Grams as may be specified in the notification
- May specify the name of the Block
- May specify the limits of such Block
- For every Block the state government shall constitute a PS bearing the name of the Block.

Contd. SI-11



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Slide 8


(b) District Panchayat Cadre

The DP cadre could be constituted by a

- Judicious mix of direct recruitments and
- Promotion from GP cadre

Employees of DP cadre would supervise the work of the functionaries at the GP level. Examples of this would be: Extension Officers, Junior Engineers etc. Some employees listed above for GP cadre could also fall in this cadre

Contd. SI-9




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Slide 11

Organisational structure of Panchayat Samity/Anchal Samiti

- At the PS level, under the Chairmanship of the Sabhapati, the Block Development Officer (BDO) acts as the Executive Officer and
- the Joint Block Development Officer is the Joint Executive Officer.
- The Extension Officer for Panchayats (EOP) is the Secretary of the PS while most of the officers and other employees of the block set up have been placed at the disposal of the PS.

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Training Module on Legislative and Accounting Framework of PRIs. 11

Slide 9

(c) State Cadre

- GP cadre could serve as a feeding cadre to DP cadre.
- Class I and II could be State cadre for which DP could be the feeding cadre.
- The staff strength from Govt. side varies from State to State

Contd. To SI-10




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Slide 12

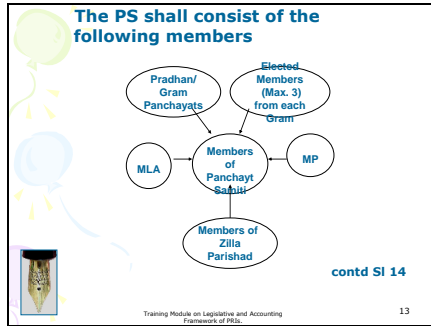
- The functions and the responsibilities of the office of the BDO and that of the PS are interdependent and complimentary to each other
- Each of the PS also has 10 Sthayee Samitis (This may vary from State to State).
- As the functions of these Sthayee Samitis are the same as in the ZP, the functions will be covered under 'Constitution of ZP'

Contd. SI-13



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Slide 13



Slide 16

Zilla Sansad

Zilla Sansad in every ZP shall comprise of:

- Pradhan of all GPs;
- Sabhapatis, Sahakari Sabhapatis, Karmadhyakshas of all PS; and,
- All members of ZP.

Contd. SI-17

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Slide 14

Block Sansad

- Every PS shall have a Block Sansad consisting of all members of the GPs pertaining to the Block and all members of that PS

Contd. SI-15

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Slide 15

Organisational structure of ZP

- A ZP under the chairmanship of the Sabhadhipati is the key organisation at the district level and
- The District Magistrate is the Executive Officer assisted by an Additional Executive Officer and a Secretary.
- A ZP functions through different Sthayee Samitis consisting of elected representatives and nominated Government officers.
- Karmadhyakshas are the head of these Sthayee Samitis, assisted by Secretaries who are Government officers

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Session 4

Functions of a model local Govt., Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee.



- **Instructor's Guide**
- **Participants' Note**
- **PowerPoint Slides**

| | | |
|--|---------------------|------------------------|
| Session Title: Functions of a model local Government, Powers/Functions/ activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee. | | Session Guide |
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Functions of a model local Government & Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● Functions of a model local Government ● Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee. | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the. Thank the participants and bring the session to a close. | | |

Session Title

In this session following points will be discussed:

- 1. Functions of a model local Government.**
- 2. Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee.**

1. Functions of a model Local Govt.

Articles 243 to 243-O relating to Panchayats. These enactments are in the nature of basic provisions which are to be supplemented by laws made by the respective State Legislature, which will define the powers and functions of the Panchayats. Discharging of 29 functions as laid down in the 11th schedule of the Constitutions are the main functions of a Panchayat Raj Institution. However, drawing on the experience of mature Western democracies, the major functions of a model local government can be placed into following six categories. These can serve as an ideal for the PRIs in India. In fact the PRIs, like District Administration, need to function as a common platform for

planning, implementation and monitoring of all line department functions and programmes.

- Governance and Regulatory,
- Agency Functions,
- Civic Services,
- Economic Development,
- Social Justice,
- Environment and Natural Resource Management

Specific responsibilities will be entrusted to the panchayats to prepare plans for economic development and social justice in respect of matters listed in XI Schedule. For the implementation of development schemes, main responsibility will be entrusted to the panchayats.

The panchayats will receive adequate funds for carrying out their plans. Grants from state government will constitute an important source of funding but state government is also expected to assign the revenue of certain taxes to the panchayats. In some cases, panchayat will also be permitted to collect and retain revenue it raises.

In each state, finance commission will be established within one year and after every

five years to determine principles on the basis of which adequate financial resource would be entrusted for panchayats.

Different States have entrusted the PRIs under their control the above functions through devolution of power by enacting their Panchayat Raj Act. Devolution of PRI functions through different tier viz. GP, PS & ZP are done by the State Govt. as per PRI Act. Since West Bengal State is one of the pioneering State in PRI sectors the powers/functions/activities of the PRIs of this State are discussed below. Many States have followed the suit.

Functions/activities in Gram Panchayat of West Bengal.

7. Meeting of Gram Sansad:

a. Every constituency of a GP shall have a Gram Sansad consisting of persons whose names are included in the electoral roll of the WB Legislative Assembly for the time being in force pertaining to the area comprised in such constituency of the GP.

b. Every GP shall hold within the local limits of the Gram an annual (in May) and a half-yearly meeting (in November)

for each Gram Sansad at such date and at such hour as may be fixed by the GP.

- c. At least 7 days before the date of holding the meetings the GP shall give public notice of such meetings
- d. Every meeting shall be presided over by the Pradhan and in his absence by the Upa-Pradhan
- e. One-tenth of the total number of members shall form a quorum of a Gram Sansad; provided that attendance of 5% members is necessary to form quorum for an adjourned meeting which shall be held at the same time and place after seven days.

Transaction of business at Gram Sansad meeting:

- f. In the annual meeting of the Gram Sansad, the GP shall place for deliberation, recommendation and suggestion:
 - i. The supplementary budget of the GP for the preceding year and
 - ii. The annual report on works.
- g. In the half-yearly meeting the Gram Sansad will discuss:
 - i. The budget of the GP for the following year; and

ii. The latest report on the audit of the accounts of the GP.

2. Report on the work of GP:

i. There should be two reports for every year. The GP shall prepare in Form 3-A an annual report on the work done during the previous year and the work proposed to be done during the following year and submit it to the PS. A half-yearly report should be prepared in October and April every year. The amount received from different sources and the amount pending should be narrated in the report;

ii. The GP shall, immediately after the preparation of the annual report, publish the same in the office of the GP for information of the general public;

iii. The GP shall place the same in the meetings of the Gram Sansad and the Gram Sabha for discussion and adoption with modification and shall furnish copies of the report to the PS ordinarily by the middle of January every year.

3. Obligatory duties of GP:

i) A GP shall function as a unit of self-government and, in order to achieve economic development and secure social justice for all, shall:

ii) Prepare a development plan for the five-year term of the office of the members and revise and update it as and when necessary with regard to the resources available;

iii. Prepare an annual plan for each year by the month of October of the preceding year for development of human resources, infrastructure and civic amenities in the area;

iv. Implement schemes for economic development and social justice as may be drawn up by or entrusted upon it.

v. Besides benevolent works like sanitation, preventive measures in respect of malaria, small pox etc. the duties of GP shall be :

i. The removal of encroachment of public streets or public area;

ii. The imposition, assessment and collection of the taxes, rates or fees leviable by GP; and

iii. The control and administration of GP Fund.

iv. A GP shall also perform such other functions as the State Government may assign to it in respect of the following:

- Primary, social, technical, vocational, adult education;
- Education;
- Agriculture etc

Powers, duties and functions of PS

1. Meetings of a PS

Every PS shall hold a meeting in its office at least once in every 3 months on such date and at such hour the PS may fix at the immediately preceding meeting; provided that the first meeting of a newly-constituted PS shall be held as the authority may fix.

The BDO shall attend meetings of the PS and shall participate in the deliberations thereof.

2. Meeting of Block Sansad.

Every PS shall hold an annual and a half-yearly meeting of such Block Sansad.

One-tenth of the total number of members shall form a quorum for a meeting of Block Sansad which shall be presided over by the Sabhapati.

Block sansad shall guide and advise the PS in all matters relating to development including preparation of annual plan and budget, implementation of development programmes, schemes or projects.

3. Report on the work of PS.

PS shall prepare in the prescribed manner a report on the work done during the previous year and the work proposed to be done during the following year and submit it to the prescribed authority and to the ZP concerned within the prescribed time.

Powers, duties and functions of ZP.

- Functions as a unit of self-Government;
- Strives to achieve economic development. and secure social justice for all;
- Prepares a development plan for the five-year term of the office members;
- Prepares an annual plan for each year by the month of January of the preceding year;
- Undertakes schemes for adopting measures, including financial assistance, relating to development of agriculture, fisheries etc;
- Undertakes execution of any scheme, performance of any act, or management of any institution or organisation entrusted to it by the state government;
- Makes grants in aid of any school, public institution or public welfare

organisation within the Block (for PS) and within the district (for ZP);

- Makes grants to the PS (for ZP) or to the GP (for PS);
- Contributes with the approval of State Government such sum or sums as it may decide, towards the cost of water-supply or anti-epidemic measures undertaken by a municipality within the Block (for PS) and within the district (for ZP);
- Adopts measures for the relief of distressed;
- Co-ordinates and integrates the development plans and schemes prepared by GPs in the Blocks (for PS) or by PS in the district (for ZP), if and when necessary;
- A ZP shall have the power to advise the state government on all the matters relating to the development work among GP and PS;
- A PS shall not undertake or execute any scheme confined to an area over which a GP has jurisdiction unless the GP is of opinion that the implementation of such a scheme is beyond its competence financially or otherwise and passes a resolution to that effect;
- A ZP also shall not undertake or execute any scheme confined to a block

unless the implementation of such a scheme is beyond the competence of the PS financially or otherwise;

- A ZP or PS may undertake or execute any scheme if it extends to more than one block or one Gram respectively;
- A ZP or PS shall exercise general powers of supervision over PS and GP in the district or GP in the Block respectively and it shall be the duty of these authorities to give effect to the directions of ZP or PS, as the case may be; and,
- A PS or a GP, for the purpose of inspection or examination, requires to
 - produce any book, record, correspondence or other documents
 - or
 - furnish any return, plan, estimate, statement of accounts or statistics
 - or
 - furnish or obtain any report or information.

1. Meeting of Zilla Sansad.

Every Zilla Sansad shall hold an annual and a half-yearly meeting of such Sansad.

One-tenth of the total number of members shall form a quorum for a meeting of Zilla Sansad which shall be presided over by the Sabhadhipati;

Zilla Sansad shall guide and advise the ZP in all matters relating to development including preparation of annual plan and budget, implementation of development programmes, schemes or project.

Status of the GS:

Empowerment of GSs can be a powerful weapon for transparency, accountability, inclusive growth and social audit. This can be and is being done in two ways. In the guidelines of different Ministries for Central Schemes, specific functions for GS are being proposed by MoPR. Some States have also provided for specific functions of the GS and Ward Sabha under their Panchayat Laws. The Ministry will take up with the other States, which have not made such provisions, to include the same in the Panchayat Laws.

1. Powers of the Gram Sabha

The GSs under PESA are deemed to be 'competent' to safeguard and preserve the traditions of their people, community resources and customary mode of dispute resolution.

The GSs further have:

- Mandatory executive functions to approve plans of the Village Panchayats, identify beneficiaries for schemes, issue certificates of utilisation of funds.
- Right to mandatory consultation in matters of land acquisition, resettlement and rehabilitation, and prospecting licenses/mining leases for minor minerals.
- Power to prevent alienation of land and restore alienated land.
- Power to regulate and restrict sale/consumption of liquor.
- Power to manage village markets, control money lending to STs.
- Ownership of minor forest produce
- Power to control institutions and functionaries in all social sectors.
- Power to control local plans and resources for such plans including TSP etc.

Establishment of ZP and PS.

- There shall be an Executive Officer for every PS and the Block Development Officer shall be the ex-officio Executive Officer, provided that:
 - the BDO may be recalled by the state government, if a resolution to that effect is passed by the PS, at a meeting specially convened for the purpose, by a majority of the total members holding office for the time being;
 - There shall be a joint Executive Officer for every PS and the Joint BDO shall be the ex-officio joint Executive Officer;
 - There shall be a Secretary for every PS and the Extension Officer, Panchayats shall be the ex-officio Secretary;
 - Subject to such rules as may be made by the state government, a PS may appoint such other officer and employees as may be required by it and may fix the salaries to be paid to the persons so appointed, provided that no post shall be created or abolished and no revision of pay of any post shall be made by the PS without the prior approval of the state government;
 - There shall be an EO for every ZP and the District Magistrate will generally function as the ex-officio EO;
 - Provided that the EO so appointed may be recalled by the state government, if a

resolution to that effect is passed by the ZP, at a meeting specially convened for the purpose, by a majority of the total members holding office for the time being;

- There shall be an Additional Executive Officer for every ZP and a Senior State Civil Service officer acts as Additional Executive Officer;
- There shall be a Secretary for every ZP. A Senior State Civil Service officer acts as Secretary;
- Posts of Deputy Secretary and Additional Deputy Secretary have recently been created and distributed among few ZPs;
- Subject to such rules as may be made by the State Government, a ZP may appoint such other officers and employees as may be required by it and may fix the salaries to be paid to the persons so appointed, provided that no post shall be created or abolished and no revision of pay of any post shall be made by the ZP without the prior approval of the State Government.

Apart from the bodies mentioned above there are different committees through which initial work and decision of the PRI activities are taken please. These are-

Sthayee (permanent) Samitis and their functions.

1. Artha (Finance) Sansthan, Unnayan (Development) \bar{o} Parikalpana (planning).
 - All financial matters
 - Budgeting
 - Accounts
 - Audit
 - Resource mobilisation
 - Panchayat/Parishad administration
2. Jana Sasthya (Public Health) \bar{o} Paribesh (atmosphere)
 - Health System
 - Community health
 - Sanitation
 - Nutrition
3. Purta Karja \bar{o} Paribahan
 - Construction works like - Roads, Culverts; Rural housing Rural communication
4. Krishi Sech \bar{o} Samabaya
 - Agriculture
 - Agri-marketing
 - Agro-industry
 - Soil Conservation
5. Shiksha Sanskriti Tathya \bar{o} Krira
 - Primary / Secondary Education
 - Adult/Non-formal Education
 - Sishu Siksha Avijan
6. Sishu \bar{o} Nari Unnayan, Janakalyan
 - Child labour
 - Social Welfare
 - Issues relating to women & children

7. Ban \bar{o} Bhumi Sanskar
 - Distribution of vested land
 - Land Reforms,
 - Social forestry,
8. Matsya \bar{o} Prani Sampad Bikash
 - Fishery
 - Animal resources development
 - Medical Treatment
 - Veterinary Service
9. Khadya \bar{o} Sarabaraha
 - Rationing system
 - MR Dealer appointment
 - Ration Cards distribution & Checking
 - Mid day meal distribution
 - Annapurna Yojana
 - Antyodaya Anna Yojana
10. Khudra Silpa Bidyut \bar{o} Achiracharit Shakti
 - Small & Cottage Industry
 - Handloom
 - Rural Industry
 - Sick Industry
 - Khadi & Village Industry
 - Self-employment & technical Training
 - Non-conventional energy.

Composition of Sthayee Samiti

- Sabhapati/Sabhadhipati ex-officio
- Sahakari Sabhapati/Sabhadhipati, ex-officio
- Elected members (minimum 3, maximum 5)
- One member from recognized political party in opposition
- Karmadhyaksha
- Secretary
- officer appointed by state government.

No person, other than the Sabhapati or Sahakari Sabhapati shall be a member of more than two Sthayee Samitis for ZP or three Sthayee Samitis for PS.

A Sthayee Samiti shall exercise such powers, perform such functions and duties as may be prescribed by the ZP.

In case of ZP, no person other than the Sabhadhipati or Sahakari Sabhadhipati shall be a member of more than two Sthayee Samitis.

Karmadhyaksha of Sthayee Samiti

Members of Sthayee Samiti shall elect a Chairman called Karmadhyaksha from amongst them

- provided that Sabhapati and Sabhadhipati shall be the ex-officio Karmadhyaksha of the 'Artha, Sansthan, Unnayan \bar{o} Parikalpana Sthayee Samiti' of PS & ZP respectively
- provided that Pradhans of GPs, MP/MLA, and Members of Council of States not being minister shall not be eligible for the post of Karmadhyaksha of PS
- Provided that Sabhapatis of PS/MP/MLA and members of council of state shall not be eligible for the post of Karmadhyaksha for ZP.

Secretary of Sthayee Samiti –

The Extension Officer of the PS shall act as the Secretary to the Artha,

Sansthan, Unnayan \bar{o} Parikalpana Sthayee Samiti of PS.

The Secretary of ZP shall act as the Secretary to all the Sthayee Samitis of ZP.

Duties & functions of Karmadhyaksha

Karmadhyaksha shall be-

- responsible for the financial and executive administration in respect of the schemes and programmes under the purview and control of the Sthayee Samiti; and,
- entitled, in respect of the work of the Sthayee Samiti, to call for any information, return, statement, account or report from the office of the PS or to inspect any work in progress.

District Council

The West Bengal Panchayat (amendment) Act, 1994 constituted a new body called District Council for panchayats in each district headed by the Leader of the recognised political party in opposition having largest number of members the ZP who is called Adhyaksha to examine –

- the accounts of the panchayats within its territorial jurisdiction in relation to the budget approved by the panchayat concerned for expenditure to be incurred by such panchayats; and,

- the Annual Reports and such other books of accounts of such Panchayats as the District Council may think fit.

The Council has been empowered to satisfy itself that the amount of money shown in the accounts as having been disbursed is legally available for and applicable to the service or purpose to which they have been applied.

The District Council consists of the Chairperson, who will be the leader of the recognised political party in opposition having the largest number of members directly elected with the reserved symbol of such recognised political party in the ZP or Mahakuma Parishad. Vice Chairman is elected from amongst the members of ZP or Mahakuma Parishad not being the Sabhadhipati, Sahakari Sabhadhipati or Karmadhyaksha. Five members are elected by the members of the ZP from amongst themselves. Besides the elected members, three officers are nominated as members by the state government and the Additional Executive Officer of the ZP or Mahakuma Parishad acts as the Member Secretary.

The District Council, in effect, seek to inject an in-built audit mechanism and is to some extent is considered similar to the Public Accounts Committee of the Legislative Assembly. The Council is

empowered to ensure that the Panchayat Bodies within the district maintain financial propriety and discipline in their transactions and for this purpose may examine the records of accounts in the Panchayats.

District Planning Committee

The District Planning Committees (DPCs) are to be constituted as per Article 243-ZD of the Constitution for integrating rural and urban plans prepared by panchayats and municipalities and also to take into consideration spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure and environment conservation in the district. These important functions of the committee could have facilitated interface between municipalities and panchayats. An attempt has thus been made to integrate rural and urban areas, which is essential for preparing a meaningful plan of the district as a whole. However, only 11 states, namely, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal and three Union Territories, namely, A & N Islands, Daman and Diu and Lakshadweep have taken action to constitute DPCs.

Slide 1

Session 4

In this session following points will be discussed:

- Functions of a model local Government.
- Powers/Functions/activities of Gram Panchayat, Panchayat Samiti, Zilla Parishad, Gram Sabha, District Council & District Planning Committee .

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- In each state, finance commission will be established within one year and after every five years to determine principles on the basis of which adequate financial resource would be entrusted for panchayats.
- Different States have entrusted the PRIs under their control the above functions through devolution of power by enacting their Panchayat Raj Act.

contd SI 5 4

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Functions of a model Local Govt

Discharging of 29 functions as laid down in the 11th schedule of the Constitutions are the main functions of a Panchayat Raj Institution

The major functions of a model local government can be placed into following six categories.

- Governance and Regulatory,
- Agency Functions,
- Civic Services,

contd...SI-3 5

Slide 5

Functions/activities in Gram Panchayat

1. Meeting of Gram Sansad:

- Every constituency of a GP shall have a Gram Sansad consisting of persons whose names are included in the electoral roll
- Every GP shall hold within the local limits of the Gram an annual (in May) and a half-yearly meeting (in November)

Contd. SI-6 5

Slide 3

- Economic Development,
- Social Justice,
- Environment and Natural Resource Management

The panchayats will receive adequate funds for carrying out their plans. Grants from state government will constitute an important source of funding but state government is also expected to assign the revenue of certain taxes to the panchayats. In some cases, panchayat will also be permitted to collect and retain revenue it raises.

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- At least 7 days before the date of holding the meetings the GP shall give public notice of such meetings
- Every meeting shall be presided over by the Pradhan and in his absence by the Upa-Pradhan
- One-tenth of the total number of members shall form a quorum of a Gram Sansad; provided that attendance of 5% members is necessary to form quorum for an adjourned meeting .

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Transaction of business at Gram Sansad meeting:

f. In the annual meeting of the Gram Sansad, the GP shall place for deliberation, recommendation and suggestion:

- The supplementary budget of the GP for the preceding year and
- The annual report on works.

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iii. The GP shall place the same in the meetings of the Gram Sansad and the Gram Sabha for discussion and adoption with modification and shall furnish copies of the report to the PS ordinarily by the middle of January every year

Obligatory duties of GP:

i) A GP shall function as a unit of self-government and, in order to achieve economic development and secure social justice for all, shall:

ii) Prepare a development plan for the five-year term of the office of the members and revise and update it as and when necessary with regard to the resources available; contd SI 11

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g. In the half-yearly meeting the Gram Sansad will discuss:

- The budget of the GP for the following year; and
- The latest report on the audit of the accounts of the GP.,

contd...SI-9

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iii. Prepare an annual plan for each year by the month of October of the preceding year for development of human resources, infrastructure and civic amenities in the area;

iv. Implement schemes for economic development and social justice as may be drawn up by or entrusted upon it.

v. Besides benevolent works like sanitation, preventive measures in respect of malaria, small pox etc. the duties of GP

Contd. To SI-12

Training Module on Legislative and Accounting Framework of PRIs.

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Report on the work of GP:

i. There should be two reports for every year. The GP shall prepare in Form 3-A an annual report on the work done during the previous year and the work proposed to be done during the following year and submit it to the PS. A half-yearly report should be prepared in October and April every year. The amount received from different sources and the amount pending should be narrated in the report;

ii. The GP shall, immediately after the preparation of the annual report, publish the same in the office of the GP for information of the general public;

Contd. To SI-10

Training Module on Legislative and Accounting Framework of PRIs.

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Powers, duties and functions of PS

1. Meetings of a PS

- Every PS shall hold a meeting in its office at least once in every 3 months on such date and at such hour the PS may fix at the immediately preceding meeting; provided that the first meeting of a newly-constituted PS shall be held as the authority may fix.
- The BDO shall attend meetings of the PS and shall participate in the deliberations thereof.

Contd. SI-13

Training Module on Legislative and Accounting Framework of PRIs.

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Meeting of Block Sansad.

- Every PS shall hold an annual and a half-yearly meeting of such Block Sansad.
- One-tenth of the total number of members shall form a quorum for a meeting of Block Sansad which shall be presided over by the Sabhapati.
- Block sansad shall guide and advise the PS in all matters relating to development including preparation of annual plan and budget.

contd...SI-14

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- Undertakes execution of any scheme, performance of any act, or management of any institution or organisation entrusted to it by the state government;
- Makes grants in aid of any school, public institution or public welfare organisation within the Block (for PS) and within the district (for ZP);
- Makes grants to the PS (for ZP) or to the GP (for PS);

contd SI 17

Training Module on Legislative and Accounting Framework of PRIs.

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Report on the work of PS.

- PS shall prepare in the prescribed manner a report on the work done during the previous year and the work proposed to be done during the following year and submit it to the prescribed authority and to the ZP concerned within the prescribed time.

contd...SI-15

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Meeting of Zilla Sansad.

- Every Zilla Sansad shall hold an annual and a half-yearly meeting of such Sansad.
- One-tenth of the total number of members shall form a quorum for a meeting of Zilla Sansad which shall be presided over by the Sabhadhipati;
- Zilla Sansad shall guide and advise the ZP in all matters relating to development including preparation of annual plan and budget, implementation of development programmes, schemes or project.

Contd. To SI-18

Training Module on Legislative and Accounting Framework of PRIs.

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Powers, duties and functions of ZP

- Functions as a unit of self-Government;
- Strives to achieve economic development and secure social justice for all;
- Prepares a development plan for the five-year term of the office members;
- Prepares an annual plan for each year by the month of January of the preceding year;
- Undertakes schemes for adopting measures, including financial assistance, relating to development of agriculture, fisheries etc.;

Contd. SI-16

Training Module on Legislative and Accounting Framework of PRIs.

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Status & Power of the GS under PESA

Status of the GS.

- Empowerment of GSs can be a powerful weapon for transparency, accountability, inclusive growth and social audit. This can be and is being done in two ways. In the guidelines of different Ministries for Central Schemes, specific functions for GS are being proposed by MoPR. Some States have also provided for specific functions of the GS and Ward Sabha under their Panchayat Laws. The Ministry will take up with the other States, which have not made such provisions, to include the same in the Panchayat Laws.

Contd. SI-18

Training Module on Legislative and Accounting Framework of PRIs.

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Powers of the Gram Sabha

- The GSs under PESA are deemed to be 'competent' to safeguard and preserve the traditions of their people, community resources and customary mode of dispute resolution.
- Mandatory executive functions to approve plans of the Village Panchayats, identify beneficiaries for schemes, issue certificates of utilisation of funds.

contd SI 20

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Right to mandatory consultation in matters of land acquisition, resettlement and rehabilitation, and prospecting licenses/mining leases for minor minerals.

- Power to prevent alienation of land and restore alienated land.
- Power to regulate and restrict sale/consumption of liquor.
- Power to manage village markets, control money lending to STs.
- Ownership of minor forest produce
- Power to control institutions and functionaries in all social sectors.
- Power to control local plans and resources for such plans including TSP etc.

Training Module on Legislative and Accounting Framework of PRLs. 8

Session 5

Financial and Accounting Framework of Panchayati Raj Institutions



- Instructor's Guide
- Participants' Note
- PowerPoint Slides

| Session Title: Financial & Accounting Framework of Panchayat Raj Institutions. | | Session Guide |
|---|---------------------|------------------------|
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Financial Frame work of PRI sectors & Constitutional provisions on Panchayat Finances and Constitutional Framework for inter governmental fiscal transfer. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● Financial Frame work of PRI sectors. ● Constitutional provisions on Panchayat Finances. ● Constitutional Framework for inter governmental fiscal transfer. | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the Financial Framework of Panchayat Raj Institutions and Constitutional provisions on Panchayat Finances including Constitutional Framework for inter governmental fiscal transfer. Thank the participants and bring the session to a close. | | |

Session Title

Financial and Accounting Framework of Panchayati Raj Institutions.

In this session following points will be discussed-

1. Financial Frame work of PRI sectors.
2. Constitutional provisions on Panchayat Finances.
3. Constitutional Framework for inter governmental fiscal transfer.
4. Follow up of 73rd Amendment on Devolution of powers.

As the Accounts & Finance are the terminologies closely related to each other mere discussion on Accounting Frame work will be fruitless without discussion on Financial Frame work.

1. Financial Frame work of Panchayat Raj Institutions.

In very ancient period a system of collection of revenue in the name of tax from the village houses for betterment of the locality was in existence. Local development was in very miniature form. Many changes from time to time were noticed subsequently. But it revealed from the various data available to various committees and Finance Commissions that Panchayat sectors

were very much dependent on the State Government or Central Government. Further study also revealed that over the last decade, the own sources of revenue of PRIs have been less than 10% of their expenditure. In contrast, more than 90% of their expenditure has been financed through Centrally Sponsored Schemes (CSS), Additional Central Assistance (ACA) or other government grants, the major recipient of this source being the GPs. Although Article 40 of the Constitution which enshrines one of the Directive Principles of State Policy lays down that the State shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government this was not given proper cognizance in true sense. Thus the question of dependency arises. The other major reasons were found to be poor monitoring on the Panchayats by the State Governments, indiscriminate release of fund to PRIs for development, most of which is politically biased, as a result, development of local area is compromised and infrastructure becomes poor, lack of sincere and

serious efforts to improve own resources of revenues on the part of Panchayat bodies, lack of efficient staff, corruption, lack of transparency, absence of accountability to the citizens/tax payers, non conducting of election in regular interval and poor participation of people. Hence, it was recommended by the various CFCs to strengthen the PRIs fund apart from several instructions/strictures issued to Governments.

Considering the backgrounds of poor revenue generation as well as poor infrastructure of the Panchayat Raj Sectors, significant amendments were made to the Constitution through 73rd Amendment, which gave substantial powers to State Governments to enrich local governments authorizing them to raise fund and impose taxes by inserting Articles 243(H) & 243(I) to the Constitution.

2. Constitutional Provisions on Panchayat Finances.

The taxation power of the Panchayats essentially flow from Article 243 (H), which reads that-

“the Legislature of a State may, by law:

- Authorise a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits.
- Assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes, and subject to such conditions and limits.
- Provide for making such grants-in-aid to the Panchayat from the Consolidated Fund of the State, and
- Provide for constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for withdrawal of such moneys therefrom, as may be specified in the law.”
- Article 243 (I) of the Constitution mandate setting up of SFC, within one year from 25 April 1993, the date on which Constitution 73rd Amendment came into force, and thereafter at the expiration of every fifth year,
- to review the financial position of the Panchayats and make recommendations to the Governor as to the-
 - (a) principles which should govern the following:

- Distribution between the States and Panchayats of the net proceeds of the taxes, duties, tolls and fees.
 - Determination of taxes, duties, tolls and fees to be assigned to Panchayats.
 - Grants-in-aid to the Panchayats from the Consolidated Fund of the State;
- (b) Measures needed to improve the financial position of the Panchayats;
- (c) Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Panchayats.

The report of the Commission together with a memorandum of action on it shall be laid before the State Legislature.

The duties of the Finance Commission as laid down in Article 280 of the Constitution are to make recommendations to the President as to-

- (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;
- (b) the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India;

- (bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the **Panchayats** in the State on the basis of the recommendations made by the Finance Commission of the State;
- (c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;
- (d) any other matter referred to the Commission by the President in the interests of sound finance.

Article 243-J of the Constitution expects the States to make provisions with regard to the maintenance of accounts by the Panchayats and their auditing. The accounts and audit mandate, thus originate in a Legislative Statute.

3. Constitutional Framework for inter governmental fiscal transfer are:

I) Direct transfer from Central Govt. to State Govt.- These are-

- 1) Share of Central taxes Recommended By CFC [Art.280 (3)(a)],
- 2) Grants in aid (Art. 275),
- 3) Grants for any public purpose (Art. 282),

II) From State Govt. of Local Govt.-

- 1) Share of State taxes Recommended By SFC [Art. 243(I)],
- 2) Entrustment of Schemes [Art. 243(G)],

III) From Central Govt. to direct to Local Govt.-

- 1) Funds received to supplement LG resources [Art. 280(3)(b) &(bb)],
- 2) Grants for any public purpose (Art. 282).

These apart, Local Govts. generate their own resources to form total fund.

4. Follow up of 73rd Amendment on devolution of powers.

With the Constitution 73rd Amendment and the State Acts enacted thereafter PRIs were revived. The State legislation carried through in conformity with the Amendment replaced the existing Panchayati Raj system in almost all the States/UTs with three-tier institutional structure and incorporated most of the features of PRIs enshrined in the Amendment. In most of the States Finance Commissions have been set up. Despite several recommendations were made by the various Finance Commissions, from time to time inadequate devolution of powers (Fund.

Functions & Functionaries) and lack of financial resources still prevail resulting which dependency of the Panchayat bodies still remain a great headache.

Slide 1

Session 5

Financial and Accounting Framework of Panchayati Raj Institutions.

Training Module on Legislative and Accounting Framework of PRIs.

1

Slide 4

- In contrast, more than 90% of their expenditure has been financed through Centrally Sponsored Schemes (CSS), Additional Central Assistance (ACA) or other government grants
- The major recipient of this source being the GPs

contd SI 5

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4

Slide 2

Learning Objective

- Financial Frame work of PRI sectors.
- Constitutional provisions on Panchayat Finances.
- Constitutional Framework for inter governmental fiscal transfer.

contd...SI-3

Training Module on Legislative and Accounting Framework of PRIs.

5

Slide 5

As per Articles 40 of the Constitution, the State shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government

- this was not given proper cognizance in true sense.
- Thus the question of dependency arises.

Contd. SI-6

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5

Slide 3

Financial Frame work of Panchayat Raj Institutions.

- As per various data available to various committees and Finance Commissions, Panchayat sectors were very much dependent on the State Government or Central Government.
- Further study also revealed that over the last decade, the own sources of revenue of PRIs have been less than 10% of their expenditure.

Contd. To SI-4

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3

Slide 6

Considering the backgrounds of poor revenue generation as well as poor infrastructure of the Panchayat Raj Sectors, significant amendments were made to the Constitution through 73rd Amendment, which gave substantial powers to State Governments to enrich local governments authorizing them to raise fund and impose taxes by inserting Articles 243(H) & 243(I) to the Constitution. .

Contd. To SI-7

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6


Slide 7

Constitutional Provisions on Panchayat Finances

The taxation power of the Panchayats essentially flow from Article 243 (H), which reads that- "the Legislature of a State may, by law:

- Authorise a Panchayat to levy, collect and appropriate taxes, duties, tolls and fees
- Assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government

Contd SI-8



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Slide 10

II. From State Govt. of Local Govt.-


- 1) Share of State taxes Recommended By SFC [Art. 243(I)]
- 2) Entrustment of Schemes [Art. 243(G)],

III. From Central Govt. to direct to Local Govt

- 1) Funds received to supplement LG resources [Art. 280(3)(b) &(bb)]
- 2) Grants for any public purpose (Art. 282).

- These apart, Local Govts. generate their own resources to form total fund.

contd SI 11




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10

Slide 8

- Provide for making such grants-in-aid to the Panchayat from the Consolidated Fund of the State
- Provide for constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for withdrawal of such moneys therefrom, as may be specified in the law."
- Article 243 (I) of the Constitution mandate setting up of SFC
- to review the financial position of the Panchayats and make recommendations to the Governor

contd...SI-9



Training Module on Legislative and Accounting Framework of PRIs.

8


Slide 11

Follow up of 73rd Amendment.

- With the Constitution 73rd Amendment and the State Acts enacted thereafter PRIs were revived.
- The State legislation carried through in conformity with the Amendment replaced the existing Panchayati Raj system in almost all the States/UTs with three-tier institutional structure and
- Incorporated most of the features of PRIs enshrined in the Amendment.

In most of the States Finance Commissions have been set up.

Contd. SI-12



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11


Slide 9

Constitutional Framework for inter governmental fiscal transfer

I. Direct transfer from Central Govt. to State Govt.- These are-

- 1) Share of Central taxes Recommended By CFC [Art.280 (3)(a)], 2) Grants in aid (Art. 275), 3) Grants for any public purpose (Art. 282),

Contd. To SI-4




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3

Slide 12

- Despite several recommendations were made by the various Finance Commissions, from time to time inadequate devolution of powers (Fund. Functions & Functionaries) and lack of financial resources still prevail resulting which dependency of the Panchayat bodies still remain a great headache.

Contd. SI-12



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12

Session 6

Panchayat's Fund and need for fiscal decentralization and devolution. Need for devolution of funds to PRIs as untied. Need for raising own resources.



- **Instructor's Guide**
- **Participants' Note**
- **PowerPoint Slides**

| | | |
|---|---------------------|------------------------|
| Session Title: Panchayat's Fund and need for fiscal decentralization and devolution. Need for devolution of funds to PRIs as untied. Need for raising own resources. | | Session Guide |
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Panchayat's Fund and need for fiscal decentralization and devolution & need for raising own resources. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● Panchayat's Fund and need for fiscal decentralization and devolution. ● Need for devolution of funds to PRIs as untied. ● Need for raising own resources. | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the Panchayat's Fund and need for fiscal decentralization and devolution & need for raising own resources. Thank the participants and bring the session to a close. | | |

Session Title

Financial and Accounting Framework of Panchayati Raj Institutions.

In this session following points will be discussed-

5. Panchayat's Fund and need for fiscal decentralization and devolution.
6. Need for devolution of funds to PRIs as untied.
7. Need for raising own resources.

1. Panchayat's Fund and need for fiscal decentralization and devolution.

Fund of a Panchayat Body constitutes the following:

- Grant given by the CFC,
- Grant given by the SFC,
- Assigned Revenues – i.e. share of taxes and fees as assigned by the State Govt. e.g. grants in lieu of entertainment Tax etc.
- Grants-in-aid by the State Government, for payment of Salary, DA etc.
- Any other grant given by the State or Central Govt. for Specific purposes (implementation of schemes etc.).
- Own source of Revenues.

In the Roadmap for the Panchayati Raj (2011-17) - an All India Perspective,

MOPR's comments on need for raising own funds of PRIs were as follows:

There is an imperative need for an effective fiscal decentralisation so as to ensure that the finances available with the Panchayats match the transferred functions based on activity mapping for the devolution of 3Fs. Further, there is a need to re-orient the regulatory and policy regime and give the Panchayats more tax handles as also to ensure that the taxation powers given are effectively exercised since generating own revenue is the best way to increase autonomy, efficiency, credibility and accountability of Panchayats. Moreover, fiscal decentralisation needs to be viewed as a comprehensive system beginning with the assignment of expenditure and revenue responsibility.

The Twelfth Finance Commission, on the basis of some studies, has suggested measures such as making it obligatory for PRIs to levy certain taxes, prescribing minimum revenue collection, levy of user charges, higher efficiency in tax collection, economy in expenditure and transparency in functioning.

The Thirteenth Finance Commission has also reiterated the need for local bodies to raise their own tax and non tax-revenues,

particularly by exploiting sources like property tax, profession tax, recovery of maintenance costs at least for water supply, sewage disposal and solid waste management, levy of service charges on Govt. properties, incentivisation of local bodies for revenue collection etc.

Processes of fiscal devolution from states to the Panchayats are taking place through SFCs. The States have the basic responsibility of enhancing the credibility and acceptability of the SFCs. The SFCs, therefore, need to be strengthened and their work and reports streamlined in many ways including some standardisation in their methods and approaches.

SFC Devolutions-

SFCs should consider devolving share of tax income (like the 13th FC) instead of fixed grants to the Panchayats. Kerala, for example, allots three-eighths of the amount of the basic tax collected by the Government to the village Panchayats. Thus, the income of the village Panchayat automatically increases with the increased tax revenue of the State Government. SFCs should work out standard methodology for normative assessment of the revenue receipts and expenditure of the local bodies. This should

include the requirements of expenditure on maintenance of assets and staff, and discharge of statutory civic functions. On the receipt side, the assessment should include potential and actual collection of property taxes, occupation/professional taxes, rents and user charges etc. Based on such assessment, the SFC should make recommendation for transfer of resources from State Government to the local bodies. The CFC should, in turn, make its recommendations in relation to Local Bodies based on the SFC's reports. This would avoid the need for the CFCs taking recourse to adhoc principles for fiscal transfers in relation to the local bodies.

CFC Devolutions- The 13th FC has, in a radical departure from the past, devolved to the local bodies a share of divisible tax pool instead of fixed grants. The Commission has also allotted a performance grant subject to the fulfillment of stipulated conditions, which are expected to bring about considerable improvement in the working of the Panchayats. The 13th CFC has devolved Rs. 63,150 crore on the PRIs over the period 2010-15. As compared to the 12th FC grants, this is an increase of almost 220% and is

likely to be higher given the revenue buoyancy.

It was, however, noticed that many of the recommendations made by different CFCs to devolute power to the PRIs have not yet implemented by the State Govts. or even where State Govt. devoluted funds the PRI's infrastructure was too poor to utilize it. Data from the Thirteenth Finance Commission shows that Panchayat's own sources of revenue are very meager. Five out of 28 states reported 'nil' as own sources of revenue of the Panchayats. Only in the three states—Goa, Kerala and Haryana—did the Panchayats report more than Rs. 100 per capita coming out of their own revenue-sources. In contrast, per capita expenditure through GPs was more than Rs. 500/- per capita in three states of Chhattisgarh, Goa and Kerala.

2. Need for devolution of funds to PRIs as untied.

Most of the Panchayat funds are the funds being transferred under a number of budget heads; often, in packets of small allotments against a 27 Active Gram Sabha: For Empowered People And Accountable Panchayats plethora of agency functions vis-à-vis Central and State schemes.

Except for the CSSs and ACA Schemes, serving national priorities/objectives as also the purpose-specific programmes of the States, all allocations to the PRIs should be untied. This will allow the PRIs to have the flexibility to plan and implement their programmes in accordance with the local priorities. The scheme guidelines should contain only a brief description of the objectives and expected outcomes. Furthermore, centrality of PRIs in implementation of these schemes must be guarded. BRGF is one such good example.

3. Own Resource Revenue of the Panchayats.

Tax revenues from those on land and buildings etc. and non-tax revenues (for example, from auction of Panchayat resources) could be an important contributor to their finances. Although these sources provide the main income to the Panchayats of some states, there is a user neglect of own revenue sources designated to the GPs in many states. It has been found that there is no systematic effort either by the State Governments or by the Panchayats to fully tap their assigned sources of revenue.

4. Tax domain of Panchayats and its realization-

A study of State Legislations indicates that the village Panchayat finances include more than 60 taxes and fees including octroi, property and house tax, profession tax, land tax, taxes/tolls on vehicles, entertainment tax/fee, license fee, tax on non-agricultural land, fee on registration of cable, sanitation/drainage/conservancy tax, water tax, lighting tax, education cess and tax on fairs and festivals.

Panchayat resources could also be augmented through innovative tax/non-tax measures, for example, fee on tourist vehicles, special amenities, restaurants, theatres, cyber cafes etc. as some Panchayats are doing.

Further, all common property resources vested in the Panchayats need to be identified, listed and made productive for revenue generation.


Panchayats could be empowered to collect cess on the royalty and additional/special

surcharge from minor minerals, forest produce and other natural resources since the financial, ecological and health impact of such activities is felt maximum in the surrounding areas and inhabitants.

The State Governments should focus on prescribing band of rates for such taxes and levies, mentoring, strengthening and incentivising Panchayats.


In this connection, we can remember the observations made by Kautilya in his book Arthashastra – ‘The following are the means of increasing the wealth of the State: ensuring the prosperity of state activities; continuing well tried policies; eliminating theft; keeping strict control over government employees, increasing agricultural production; promoting trade; avoiding troubles and calamities; reducing exemptions and remissions and increasing cash income.

Slide 1



Session 6

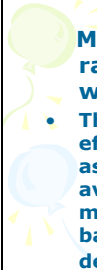
Financial and Accounting Framework of Panchayati Raj Institutions.



Training Module on Legislative and Accounting Framework of PRIs.


1

Slide 4



MOPR's comments on need for raising own funds of PRIs were as follows:

- There is an imperative need for an effective fiscal decentralisation so as to ensure that the finances available with the Panchayats match the transferred functions based on activity mapping for the devolution of 3Fs.




contd SI 5

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4


Slide 2



Learning Objective

- Panchayat's Fund and need for fiscal decentralization and devolution.
- Need for devolution of funds to PRIs as untied.
- Need for raising own resources.

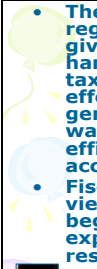
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5

Slide 5



- There is a need to re-orient the regulatory and policy regime and give the Panchayats more tax handles as also to ensure that the taxation powers given are effectively exercised since generating own revenue is the best way to increase autonomy, efficiency, credibility and accountability of Panchayats
- Fiscal decentralisation needs to be viewed as a comprehensive system beginning with the assignment of expenditure and revenue responsibility


Contd. SI-6



Training Module on Legislative and Accounting Framework of PRIs.

5

Slide 3




Panchayat's Fund and need for fiscal decentralization and devolution.

Fund of a Panchayat Body constitutes the following:

- Grant given by the CFC,
- Grant given by the SFC,
- Assigned Revenues
- Grants-in-aid by the State Government, for payment of Salary, DA etc.
- Any other grant given by the State or Central Govt. for Specific purposes
- Own source of Revenues

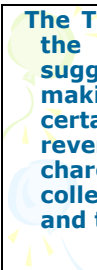
Contd. To SI-4



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3

Slide 6



The Twelfth Finance Commission, on the basis of some studies, has suggested measures such as making it obligatory for PRIs to levy certain taxes, prescribing minimum revenue collection, levy of user charges, higher efficiency in tax collection, economy in expenditure and transparency in functioning.

Contd. To SI-7




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Slide 7

The Thirteenth Finance Commission has also reiterated the need for local bodies to raise their own tax and non tax-revenues, particularly by exploiting sources like property tax, profession tax, recovery of maintenance costs at least for water supply, sewage disposal and solid waste management, levy of service charges on Govt. properties, incentivisation of local bodies for revenue collection etc

Contd SI-8




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7

Slide 10

- This will allow the PRIs to have the flexibility to plan and implement their programmes in accordance with the local priorities. The scheme guidelines should contain only a brief description of the objectives and expected outcomes.
- Centrality of PRIs in implementation of these schemes must be guarded. BRGF in one such good example.

Contd SI 11




Training Module on Legislative and Accounting Framework of PRIs.

10

Slide 8

Processes of fiscal devolution from states to the Panchayats are taking place through SFCs. The States have the basic responsibility of enhancing the credibility and acceptability of the SFCs. The SFCs, therefore, need to be strengthened and their work and reports streamlined in many ways including some standardisation in their methods and approaches.

Contd...SI-9



Training Module on Legislative and Accounting Framework of PRIs.


8

Slide 11

Own Resource Revenue of the Panchayats.

- Tax revenues from those on land and buildings etc. and non-tax revenues (for example, from auction of Panchayat resources) could be an important contributor to their finances. Although these sources provide the main income to the Panchayats of some states, there is an user neglect of own revenue sources designated to the GPs in many states.

Contd. SI-12



Training Module on Legislative and Accounting Framework of PRIs.


11

Slide 9

Need for devolution of funds to PRIs as untied.

- Most of the Panchayat funds are the funds being transferred under a number of budget heads; often, in packets of small allotments against a 27 Active Gram Sabha: For Empowered People And Accountable Panchayats plethora of agency functions vis-à-vis Central and State schemes.
- Except for the CSSs and ACA Schemes, serving national priorities/objectives as also the purpose-specific programmes of the States, all allocations to the PRIs should be untied.

Contd SI-10



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3

Slide 12

- It has been found that there is no systematic effort either by the State Governments or by the Panchayats to fully tap their assigned sources of revenue.

Contd SI-12



Training Module on Legislative and Accounting Framework of PRIs.

12

Session 7

Accounting history in ancient period.

Accounting history in ancient India including PRI accounting system. Govt. accounting systems- Rules and certain guidelines thereof. Government Accounting Standards Advisory Board (GASAB). Necessity of accounting in Panchayat Raj Institutions.



- **Instructor's Guide**
- **Participants' Note**
- **PowerPoint Slides**

| Session Title: Accounting history in ancient period. Accounting history in ancient India including PRI accounting system. Govt. accounting systems- Rules and certain guidelines thereof. Government Accounting Standards Advisory Board (GASAB) & Necessity of accounting in Panchayat Raj Institutions. | | Session Guide |
|---|---------------------|------------------------|
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Accounting history in ancient period. Accounting history in ancient India including PRI accounting system. Govt. accounting systems- Rules and certain guidelines thereof. Government Accounting Standards Advisory Board (GASAB) and Necessity of accounting in Panchayat Raj Institutions | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● Accounting history in ancient period. ● Accounting history in ancient India including PRI accounting system. ● Govt. accounting systems- Rules and certain guidelines thereof. Government Accounting Standards Advisory Board (GASAB). ● Necessity of accounting in Panchayat Raj Institutions | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the Thank the participants and bring the session to a close. | | |

Session Title

Financial and Accounting Framework of Panchayati Raj Institutions.

In this session following points will be discussed-

8. Accounting history in ancient period.
9. Accounting history in ancient India including PRI accounting system.
10. Govt. accounting systems- Rules and certain guidelines thereof.
11. Government Accounting Standards Advisory Board (GASAB).
12. Necessity of accounting in Panchayat Raj Institutions.

1. Accounting history in ancient period .

The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations. The early development of accounting dates back to ancient Mesopotamia, and is closely related to developments in writing, counting money and early auditing systems by the ancient Egyptians and Babylonians. Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from

ancient Mesopotamia show lists of expenditures, and goods received and traded. There is evidence that a key step in the development of counting—the transition from concrete to abstract counting was taken place.

Other early accounting records were also found in the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years. The people of that time relied on primitive accounting methods to record the growth of crops and herds. As there was a natural season to farming and herding, it was easy to count and determine if a surplus had been gained after the crops had been harvested or the young animals weaned.

By about the 4th century BC, the ancient Egyptians and Babylonians had auditing systems for checking movement in and out of storehouses, including oral "audit reports", resulting in the term "auditor" (from *audire*, to hear in Latin). By the 2nd century BC, the importance of taxation had created a need for the recording of payments.

By the time of Emperor Augustus (63 BC - 14 AD), the Roman government had access to detailed financial

information. The inscription was an account to the Roman people of the Emperor Augustus' stewardship, and listed and quantified his public expenditure, including distributions to the people, grants of land or money to army veterans, subsidies to the aerarium (treasury), building of temples, religious offerings, and expenditures on theatrical shows and gladiatorial games, covering a period of about forty years. The scope of the accounting information suggests that its purpose encompassed planning and decision-making.

The Roman historians Suetonius and Cassius Dio record that in 23 BC, Augustus prepared a rationarium (account) which listed public revenues, the amounts of cash in the aerarium (treasury), in the provincial *fisci* (tax officials), and in the hands of the *publicani* (public contractors); and that it included the names of the freedmen and slaves from whom a detailed account could be obtained. The closeness of this information to the executive authority of the emperor was attested by Tacitus' statement that it was written out by Augustus himself.

The Heroninos Archive is the name

given to a huge collection of papyrus documents, mostly letters, but also including a fair number of accounts, which come from Roman Egypt in 3rd century AD. The bulk of the documents relate to the running of a large, private estate is named after Heroninos because he was manager of the estate which had a complex and standardised system of accounting which was followed by all its local farm managers. Each administrator on each sub-division of the estate drew up his own little accounts, for the day-to-day running of the estate, payment of the workforce, production of crops, the sale of produce, the use of animals, and general expenditure on the staff. This information was then summarized as pieces of papyrus scroll into one big yearly account for each particular sub-division of the estate. Entries were arranged by sector, with cash expenses and gains extrapolated from all the different sectors. Accounts of this kind gave the owner the opportunity to take better economic decisions because the information was purposefully selected and arranged. When medieval Europe moved towards a monetary economy in the 13th century, sedentary merchants

depended on bookkeeping to oversee multiple simultaneous transactions financed by bank loans. One important breakthrough took place around that time: the introduction of double-entry bookkeeping, in which there was a debit and credit entry for each transaction, or for which the majority of transactions were intended to be of this form. The historical origin of the use of the words "debit" and "credit" in accounting goes back to the days of single-entry book keeping, which had as its chief objective keeping track of amounts owed by customers (debtors) and amounts owed to creditors. Debit in Latin means "he owes" and credit in Latin means "he trusts".

The earliest extant evidence of full double-entry book keeping appears in the Farolfi ledger of 1299-1300. Giovanni Farolfi & Company, a firm of Florentine merchants of Nîmes, acted as moneylenders to the Archbishop of Arles. The oldest discovered record of a complete double-entry system is the Messari (Italian: Treasurer's) accounts of the city of Genoa in 1340. The Messari accounts contain debits and credits journalised in a bilateral form and carry

forward balances from the preceding year, and, therefore, enjoy general recognition as a double-entry system.

Luca Pacioli's *Summa de Arithmetica, Geometria, Proportioni et Proportionalità* (early Italian) was first printed and published Book in Venice in 1494. It included a 27-page treatise on bookkeeping. His work represents the first known printed treatise on bookkeeping; and it is widely believed to be the forerunner of modern book keeping practice.

Although Luca Pacioli did not invent double-entry bookkeeping, his book said to have laid the foundation for double-entry bookkeeping as it is practiced today. It was written in the vernacular Italian language, and it was a printed book.

The modern profession of the chartered accountant was originated in Scotland in the nineteenth century.

In July 1854 The Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter. The Edinburgh Society of accountants adopted the name "Chartered Accountant" for members.

The Institute of Chartered Accountants in England and Wales, was established by royal charter in 1880.

In the United States the American Institute of Certified Public Accountants was established in 1887.

2. Accounting history in India including accounting in Panchayats.

The first book of accounting and financial management was written in India by Chanakya (a 4th Century BC economist) during the period of emperor Chandragupta Mourya. His book "Arthashashtra" contains detailed aspects of maintaining books of accounts for a Sovereign State.

He recognized the importance of accounting methods in economic enterprises. He realized that a proper measurement of economic performance was absolutely essential for efficient allocation of resources (which is prime need in present days' development of PRI sectors), which was considered an important source of economic development.

He developed not only book keeping rules but also the procedures for preparing periodic income statements

and budgets and performing independent audits. Book-keeping was not only restricted to compiling data, but also to correcting inadvertent errors and to discouraging and reducing manipulation or fraud. Similarly, audits tests can not ensure that all transactions were recorded accurately. Kautilya was concerned about the possibilities of overstating expenditures and understating revenues by employees siphoning off state resource. He observed that misuse of government property and false accounting by government servants lead to a reduction of wealth. He believed that revenue losses could be caused by system failures and moral failure. Financial health can be affected by misappropriation by chiefs, **remission of taxes, scattered collection, false accounting** before the revenue reaches the Treasury (some of the above type of cases are often found in both the rural and urban sectors of our Panchayat Raj System). He continued, "If receipts and expenditure are properly looked after, the King will not find himself in financial difficulties". Kautilya realized that no financial management is possible

in the absence of accurate and complete records. He proposed the establishment of two very important offices to monitor and manage the financial health of the state: the positions of Treasurer and Chief Comptroller- Auditor. Both were to be very incorruptible and efficient. It is very interesting to note that Kautilya divided financial responsibility between the Treasurer and the Comptroller-Auditor in those days.

He emphasized the critical role of independent periodic audits to increase accountability, specialization, and above all to reduce the scope for conflicts of interest and rule out risk of fraud and system failure. He also linked the successful enforcement of rules and regulations to their clarity, consistency and completeness. Kautilya believed that such measures were necessary but not sufficient to eliminate fraudulent accounting. He listed 40 possible ways in which corrupt employees could cheat and considered that it was not easy to detect cheating. He also emphasized the role of ethics, considering ethical values as the glue which binds society and promotes economic development. It appears that in 4th century B.C.E. India

there were some accounting conventions, the application of which were monitored by the Comptroller-Auditor. Kautilya specified many accounting rules. On the proper maintenance of accounts he stated, "All accounts shall be maintained in the proper form and legibly written without corrections. Failure to do so shall be a punishable offence". On the timely submission of accounts he suggested, "Day-to-day accounts [to be submitted once a month] shall be presented before the end of the following month and late submission shall be penalized." He also instructed the account officers "Not to lie about the accounts and not try to interpolate an entry as if it was forgotten." He added "High officials shall be responsible for rendering the accounts in full for their sphere of activity without any contradiction in them. Those who tell lies or make contradictory statements shall pay the highest level standard penalty."

It would be evident from above that Kautilya in those ancient age visualize/wrote every thing about economy and accounting which are still prevailing to-day.

3. Government accounting system.

We know that government accounts are maintained mainly on cash based accounting principles. Barring very few countries, this is uniformly followed across the world. Panchayat Raj Institutions of our Country follow the suit excepting a very few Panchayats of some States who follow accrual based accounting.

Article 150 of the Constitution of India stipulates that "The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe." Accordingly, the Comptroller and Auditor General of India, has made the basic rules relating to the form of accounts of the Union and States. These rules are called the "GOVERNMENT ACCOUNTING RULES 1990" and came into force with effect from 1st April, 1990. The Accounting Rules incorporate also the general principles of Government accounting laid down by the Comptroller and Auditor General for the guidance of Government Departments. The accounting function is exercised by the Controller General of

Accounts, Ministry of Finance (Department of Expenditure) on behalf of the President of India. The form of accounts of the Union, States and Union Territory Governments shall be devised keeping in view the provisions of various articles of the Constitution and Sections of Union Territories Act, 1963, and in particular, of those indicated and reproduced in these rules.

3.1. Certain guidelines of present Govt. accounting are:

3.1.1. Preparation of Annual Accounts.

Every year, from the accounts compiled by the authorities authorised to maintain the accounts of Central Government, State Governments and Union Territory Governments, accounts showing under the respective heads the annual receipts and disbursements for the purpose of Union of each State and of each Union Territory having a Legislative Assembly (including Appropriation Accounts) are to be prepared and got certified by the Comptroller and Auditor General of India. The reports of the Comptroller and Auditor General relating to these accounts shall be submitted to the President or the Governor of a State or the Administrator of a Union Territory

having a Legislative Assembly, as the case may be, who shall cause them to be laid before the Houses of Parliament, Legislatures of the States and of Union Territories respectively.

3.1.2. Cash basis of Accounts.

With the exception of such book adjustments as may be authorised by these rules or by any general or special orders issued by the Central Government on the advice of the Comptroller and Auditor General of India, the transactions in Government accounts shall represent the actual cash receipts and disbursements during a financial year as distinguished from amounts due to or by Government during the same period.

3.1.3. Currency in which Accounts are kept.

The accounts of Government shall be maintained in Indian currency i.e. rupees. All transactions of the Central and State Governments taking place in other countries shall be passed on monthly by the Indian Embassies/Missions to India and brought to account finally in the Indian books after they have been converted into rupees.

3.1.4. Form of Accounts - Main Divisions of Accounts (Rule 23).

Government accounts shall be kept in the following three parts:-

| | |
|--------------------------|--|
| Part I Consolidated Fund | of India (including Union Territory Administration) or of the State or Union Territory Government concerned. |
| Part II Contingency Fund | |
| Part III Public Account | of India (including Union Territory Administration/ Government) or of the State concerned. |

NOTE:- There being no separate Public Account in the case of Union Territory Governments, the transactions pertaining to this account shall be booked in the Public Account of the Central Government.

In part I, namely Consolidated Fund, of the accounts, there shall be two main divisions, namely:

- (i) Revenue Consisting of sections for 'Receipt heads (Revenue Account)' and 'Expenditure heads (Revenue Account)'.
- (ii) Capital, Public Debt, Loans consisting of sections for 'Receipt heads (Capital Account)', 'Expenditure heads (Capital Account)', and 'Public Debt', 'Loans', and 'Advances'.

The first division shall comprise the section Receipt heads (Revenue Account) dealing with the proceeds of taxation and other receipt classed as revenue, and the Section 'Expenditure

heads (Revenue Account)' dealing with expenditure met therefrom.

The second division shall comprise the following sections:

(a) The Section 'Receipt heads (Capital Account)' which deals with receipts of a Capital nature cannot be applied as a set off to Capital Expenditure.

(b) The Section 'Expenditure heads (Capital Account)' which deals with expenditure is met usually from borrowed funds with the object of increasing concrete assets of a material and permanent character. It also includes receipts of a Capital nature intended to be applied as set off to Capital expenditure.

(c) The Section 'Public Debt' Loans and Advances, which comprise, of loans raised and their repayments by Government such as, Internal Debt, External Debt of the Central Government, and loans and Advances made by Governments and their recoveries; transactions relating to 'Appropriation to Contingency Fund' and 'Inter-State Settlement';

In Part II, namely Contingency Fund, of the accounts shall be recorded the transactions connected with the

Contingency Fund set up by the Government of India or of a State or Union Territory Government under Article 267 of the Constitution/Section 48 of the Union Territories Act, 1963.

In Part III, namely Public Account, of the accounts, the transactions relating to Debt (Other than those included in Part D), 'Deposits', 'Advances', 'Remittances' and 'Suspense' shall be recorded. The transactions under Debt, Deposit and Advances in this part are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid, together with the repayments of the former (Debt and Deposits) and the recoveries of the latter (Advances). The transactions relating to 'Remittances' and 'Suspense' in this Part shall embrace all merely adjusting heads under which shall appear such transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle.

3.1.5. Sectors and Sub-sectors of Accounts.

(a) Within each of the Divisions and sections of the Consolidated Fund referred to in rule 23, the transactions shall be grouped into Sectors such as, "General Services", "Social Services", "Economic Services", under which specific functions or services shall be grouped. The Sectors shall be sub-divided into Major Heads of Account, in some cases the Sectors are, in addition, sub-divided into sub-sectors before their division into Major Heads of Account. Each Sector in a section shall be distinguished by a letter of the Alphabet.

(b) In Part II—Contingency Fund, there shall be a single Major Head and all the transactions met out of the Contingency Fund shall be recorded under it.

(c) In the case of Part III—Public Account, the transactions shall be grouped into sectors and sub-sectors, which shall be further sub-divided into Major Heads of Account. The Sectors/Sub-Sectors shall be distinguished by letters of the alphabet.

3.1.6. Allotment of Code to each Major Head and range of Code Numbers.

A four digit Code has been allotted to the Major Head, the first digit indicating whether the Major Head is a Receipts Head or Revenue Expenditure Head, or Capital Expenditure Head or Loans and Advances Head or it pertains to Public Account. If the first digit is '0' or '1', the Head of Account will represent Revenue Receipt; '2' or '3' will represent Revenue Expenditure; '4' or '5' Capital Expenditure; '6' or '7' Loans and Advances Head and '8' will represent Contingency Fund and Public Account. Adding 2 to the first digit of the Revenue Receipt will give the Code Number allotted to corresponding Revenue Expenditure Head; adding another 2—the Capital Expenditure Head and another 2—the Loans and Advances Head of Accounts.

The range of code numbers allotted under the scheme of codification is shown below:-

| Part-I Consolidated Fund | - | Major Head Code Nos. |
|---|----------|-----------------------------|
| Section I Receipt Heads (Revenue Account) | | 0020-1999 |
| Expenditure Heads (Revenue Account) | | 2011-3999 |
| Section II - Receipt Head (Capital Account) | | 4000 |

| | |
|---|-----------|
| Expenditure Heads (Capital Account) | 4046-5999 |
| Section III Public Debt, Loans & Advances | 6001-7999 |
| Part II - Contingency Fund | 8000 |
| Part III - Public Account | 8001-8995 |

3.1.7. Major, Minor and Detailed Heads.

(a) The main unit of classification in accounts shall be the major head which shall be divided into minor heads, each of which shall have a number of subordinate heads, generally shown as sub-heads. The sub-heads are further divided into detailed heads. Sometimes major heads may be divided into 'sub-major heads' before their further division into minor heads.

The Sectors, Major heads, Minor heads, Sub-heads and Detailed heads together constitute a five tier arrangement of the classification structure of Government Accounts.

(b) Major heads of account falling within the Consolidated Fund shall generally correspond to 'Functions' of Government, such as different services like "Crop Husbandry", 'Defence' provided by Government, while minor heads subordinate to them shall identify

the 'Programme' undertaken to achieve the objectives of the function represented by the major head. A programme may consist of a number of schemes or activities and these shall, generally, correspond to 'sub-heads' below the minor head represented by the programme. In certain cases, especially in regard to non-developmental expenditure or expenditure of an administrative nature, the sub-heads may denote the components of a programme, such as 'Organisations' or the different 'Wings of Administration'.

(c) A "detailed head", is termed as an object classification. On the expenditure side of the accounts particularly in respect of heads of accounts within the Consolidated Fund, detailed heads are primarily meant for itemised control over expenditure and indicate the object or nature of expenditure on a scheme or activity or organisation in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-aid', 'Loans', 'Investments'.

(d) The detailed classification of account heads in Government Accounts and the order in which the Major and Minor heads shall appear in all account records

shall be such as are prescribed by the Central Government from time to time on the advice of the Comptroller and Auditor General of India. The 'List of Major and Minor Heads of Account of Union and States contains the classification prescribed in this regard. The classification prescribed (including the code No. assigned upto the major heads and minor heads thereunder) should be strictly followed.

3.1.8. Classification of expenditure as "Charged" or as "Voted".

Expenditure which under the provisions of the Constitution is subject to the vote of the Legislature shall be shown in the accounts separately from expenditure which is "Charged" (on the Consolidated Fund of India or of a State or Union Territory Government). The expression "Charged" or "Voted" shall be appended to the heads concerned to distinguish the two categories of expenditure.

3.1.9. Basis of classification.

As a general rule, the classification of transactions in Government accounts, shall have closer reference to the function, programme and activity of the Government and the object of the revenue or expenditure, rather than the

department in which the revenue or expenditure occurs. This principle is, however, subject to such exceptions as may be authorised specially in any individual case or class of cases.

3.1.10. Criteria for determining whether expenditure should be classified under heads of Capital Section or Revenue Section of the Consolidated Fund.

(1) Expenditure of a capital nature to be classified in the Capital Section shall broadly be defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character.

(2) Expenditure of a Capital nature shall be distinguished from Revenue expenditure both in the Budget Estimates and in Government Accounts.

(3) Expenditure of a Capital nature as defined above shall not be classed as Capital expenditure in the Government accounts unless the classification has been expressly authorised by general or special orders of Government.

There are several other norms prescribed under the Govt. Accounting rules based on which Govt. accounts are maintained.

4. Government Accounting Standards Advisory Board (GASAB).

Article 150 of the Constitution of India stipulates that “The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the

Comptroller and Auditor General of India, prescribe.” Accordingly, with the support of the Government of India, the Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller & Auditor General of India on August 12, 2002 for the Union and States.

With a view to keeping the Indian Government Accounting in pace with the International Standard this Board was created.

4.1. Scope, Objectives and Responsibilities of GASAB.

1. The objective of the GASAB is to formulate Standards relating to accounting and financial reporting by the Union, the States and Union Territories with Legislature.

The Standards so formulated by GASAB are recommended to the Government of India for notification in accordance with the provisions of the Constitution.

4.2. The GASAB shall have, inter alia, the following responsibilities:-

2.1. To establish and improve Standards of Government accounting and financial reporting in order to enhance accountability mechanisms;

2.2. To formulate and propose Standards that improves the usefulness of financial reports based on the needs of the users;

2.3. To keep the Standards current and reflect change in the Governmental environment;

2.4. To provide guidance on implementation of Standards;

2.5. To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and

2.6. To improve the common understanding of the nature and purpose of information contained in the financial reports.

While formulating Standards, the GASAB considers the well-established system of Government accounts in India with underlying accounting concepts and principles. The GASAB also examines relevance of international best practices and gives due consideration while formulating Standards to inclusion of

encouraged disclosures or additional information.

Consequent upon the recommendation of the Twelfth Finance Commission for introduction of accrual basis of accounting in Government and acceptance by Government of India in principle, GASAB suggested an operational framework and roadmap for transition to accrual basis of accounting in Governments. Subsequently, following the mandate given by the Government to the C&AG to steer implementation of accrual accounting in consultation with different stakeholders and accounting organizations, GASAB is entrusted with the responsibility of formulating accrual based Standards.

The Standards formulated on cash basis of accounting are termed as Indian Government Accounting Standards (IGASs) and the Standards formulated on accrual basis of accounting are termed as Indian Government Financial Reporting Standards (IGFRSs).

Financial Statements of the Government relate to the Annual Finance Accounts and Annual Appropriation Accounts of the Union Government, State Governments and Union Territories with

Legislature. It would also include appropriate statements, schedules and notes to the above Statements. Detailed statements/schedules support the main statements/schedules while additional disclosures are meant to augment the financial statements and are included in the form of notes.

5. Necessity of accounting in Panchayat Raj Institutions.

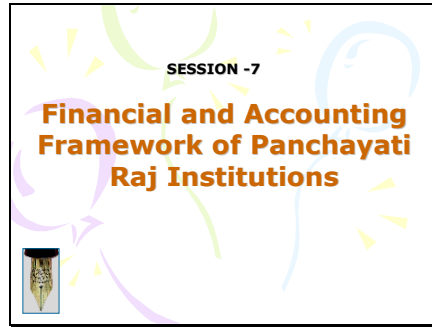
The term '**Account**' is an Anglo-french word 'a count', i.e. a count of every paise of the Citizen paying taxes. Since a Panchayat Raj Institution has to discharge the civic services to the tax payer among other services, regular maintenance as well as development functions of the local area it has to raise money in the form of taxes or others from the local people of that particular area. It is, therefore, very much necessary to keep accounts of every expenditure and let the citizen know on what account the expenditure has been incurred or utilized. Moreover, the Fund flow towards PRIs has increased manifold over the years. All these necessitated a greater level of accountability and transparency in panchayati raj institutions as well as

maintaining the accounts in proper manner.

Slide 1

SESSION -7

Financial and Accounting Framework of Panchayati Raj Institutions



Slide 4

- Other early accounting records were also found in the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years. The people of that time relied on primitive accounting methods to record the growth of crops and herds. .
- By about the 4th century BC, the ancient Egyptians and Babylonians had auditing systems for checking movement in and out of storehouses, including oral "audit reports", resulting in the term "auditor" (from audire, to hear in Latin). .

Training Module on Legislative and Accounting Framework of PRIs. 4

Slide 2

Learning Objective

- Accounting history in ancient period.
- Accounting history in ancient India including PRI accounting system.
- Govt. accounting systems- Rules and certain guidelines thereof.
- Government Accounting Standards Advisory Board (GASAB).
- Necessity of accounting in Panchayat Raj Institutions

Training Module on Legislative and Accounting Framework of PRIs. 2

Slide 5

- By the 2nd century BC, the importance of taxation had created a need for the recording of payments.
- The Roman historians Suetonius and Cassius Dio record that in 23 BC, Emperor Augustus prepared a rationarium (account) which listed public revenues, the amounts of cash in the aerarium (treasury), in the provincial fisci (tax officials), and in the hands of the publicani (public contractors); and that it included the names of the freedmen and slaves from whom a detailed account could be obtained.

Training Module on Legislative and Accounting Framework of PRIs. 5

Slide 3

Accounting history in ancient period

- The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations.
- Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from ancient Mesopotamia show lists of expenditures, and goods received and traded.

Contd. To Sl-4

Training Module on Legislative and Accounting Framework of PRIs. 3

Slide 6


- The earliest extant evidence of full double-entry book keeping appears in the Farolfi ledger of 1299-1300. Giovanni Farolfi & Company, a firm of Florentine merchants of Nimes, acted as moneylenders to the Archbishop of Arles.
- The oldest discovered record of a complete double-entry system is the Messari (Italian: Treasurer's) accounts of the city of Genoa in 1340. The Messari accounts contain debits and credits journalised in a bilateral form and carry forward balances from the preceding year, and, therefore, enjoy general recognition as a double-entry system.

Contd..Sl-7

Training Module on Legislative and Accounting Framework of PRIs. 6

Slide 7

- Luca Pacioli's **Summa de Arithmetica, Geometria, Proportioni et Proportionalità** (early Italian) was first printed and published Book in Venice in 1494. It included a 27-page treatise on bookkeeping,
- Although Luca Pacioli did not invent double-entry bookkeeping, his book said to have laid the foundation for double-entry bookkeeping as it is practiced today. It was written in the vernacular Italian language, and it was a printed book.




contd...SI-8

Training Module on Legislative and Accounting Framework of PRIs. 7

Slide 10

Accounting history in India including accounting in Panchayats

- The first book of accounting and financial management was written in India by Chanakya (a 4th Century BC economist) during the period of emperor Chandragupta Mourya. His book "Arthashastra" contains detailed aspects of maintaining books of accounts for a Sovereign State.
- He realized that a proper measurement of economic performance was absolutely essential for efficient allocation of resources.




Contd. SI-11

Training Module on Legislative and Accounting Framework of PRIs. 10

Slide 8

- The modern profession of the chartered accountant was originated in Scotland in the nineteenth century
- In July 1854 The Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter. The Edinburgh Society of accountants adopted the name "Chartered Accountant" for members.




contd.SL-9

Training Module on Legislative and Accounting Framework of PRIs. 8

Slide 11

- He developed not only book keeping rules but also the procedures for preparing periodic income statements and budgets and performing independent audits.
- He proposed the establishment of two very important offices to monitor and manage the financial health of the state: the positions of Treasurer and Chief Comptroller- Auditor. Both were to be very incorruptible and efficient




Contd. SL12

Training Module on Legislative and Accounting Framework of PRIs. 11

Slide 9

- The Institute of Chartered Accountants in England and Wales, was established by royal charter in 1880
- In the United States the American Institute of Certified Public Accountants was established in 1887




contd...SI-10

Training Module on Legislative and Accounting Framework of PRIs. 9

Slide 12

- He emphasized the critical role of independent periodic audits to increase accountability, specialization, and above all to reduce the scope for conflicts of interest and rule out risk of fraud and system failure.
- Kautilya in those ancient age visualize/wrote every thing about economy and accounting which are still prevailing to-day



Contd..SI-13

Training Module on Legislative and Accounting Framework of PRIs. 12

Slide 13

Government accounting system

- Article 150 of the Constitution of India stipulates that "The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe."
- Accordingly, the Comptroller and Auditor General of India, has made the basic rules relating to the form of accounts of the Union and States.

Contd. To Sl-14

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 16

Government Accounting Standards Advisory Board (GASAB)

- with the support of the Government of India, the Government Accounting Standards Advisory Board (GASAB) was constituted by the Comptroller & Auditor General of India on August 12, 2002 for the Union and States, with a view to keeping the Indian Government Accounting in pace with the International Standard

Contd. To Sl-17

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 14

- These rules are called the "GOVERNMENT ACCOUNTING RULES 1990" and came into force with effect from 1st April, 1990
- The accounting function is exercised by the Controller General of Accounts, Ministry of Finance (Department of Expenditure) on behalf of the President of India .

contd.SL-15

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 17

Scope, Objectives and Responsibilities of GASAB

The objective of the GASAB is to formulate Standards relating to accounting and financial reporting by the Union, the States and Union Territories with Legislature

The GASAB shall have, inter alia, the following responsibilities:-

- To establish and improve Standards of Government accounting and financial reporting in order to enhance accountability mechanisms

Contd. SL-18

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 15

Certain guidelines of present Govt. accounting are:

- Preparation of Annual Accounts
- Cash basis of Accounts
- Currency in which Accounts are kept
- Form of Accounts - Main Divisions of Accounts (Rule 23)
- Sectors and Sub-sectors of Accounts
- Allotment of Code to each Major Head and range of Code Numbers
- Major, Minor and Detailed Heads
- Classification of expenditure as "Charged" or as "Voted"
- Basis of classification
- Criteria for classification of expenditure under heads of Capital or Revenue of the Consolidated Fund

contd..Sl-16

Training Module on Legislative and Accounting Framework of PRIs.

15

Slide 18

- To formulate and propose Standards that improves the usefulness of financial reports based on the needs of the users
- To keep the Standards current and reflect change in the Governmental environment
- To provide guidance on implementation of Standards

Contd..Sl-19

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 19

- To consider significant areas of accounting and financial reporting that can be improved through the standard setting process; and
- To improve the common understanding of the nature and purpose of information contained in the financial reports.

Contd. To Sl-20

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 20

Necessity of accounting in Panchayat Raj Institutions

- Since a Panchayat Raj Institution has to discharge the civic services to the tax payer among other services, regular maintenance as well as development functions of the local area, it has to raise money in the form of taxes or others from the local people of that particular area.

Contd. To Sl-21

Training Module on Legislative and Accounting Framework of PRIs.

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Slide 21

- It is, therefore, very much necessary to keep accounts of every expenditure and
- let the citizen know on what account the expenditure has been incurred or utilized
- Moreover, the Fund flow towards PRIs has increased manifold over the years. All these necessitated a greater level of accountability and transparency in panchayati raj institutions as well as maintaining the accounts in proper manner.

Training Module on Legislative and Accounting Framework of PRIs.

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Session 8

**Constitutional provisions on Accounting
Frame work of Panchayat Raj Institutions
and Accounting system prevailing in PRIs
in different States.**

Classification of accounting heads.

**Computerization of accounting
system in Panchayats. Model Accounting
system & PRIA soft.**



- **Instructor's Guide**
- **Participants' Note**
- **PowerPoint Slides**

| Session Title: Consitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States. Classification of accounting heads. Computerization of accounting system in Panchayats. Model Accounting system & PRIA soft. | | Session Guide |
|--|---------------------|------------------------|
| Instructor's Guide | Reference | Participant's Response |
| Session Overview | | |
| Welcome participants to the session and remind them that their active participation is critical for the success of each session. | | |
| Learning Objective | | |
| Inform: At the end of this session, the participants will acquire the knowledge of Consitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States, Classification of accounting heads, Computerization of accounting system Panchayats & Model Accounting system & PRIA soft. | | |
| Basic Concepts | | |
| Discuss: <ul style="list-style-type: none"> ● Consitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States. ● Classification of accounting heads. ● Computerization of accounting system Panchayats. ● Model Accounting system & PRIA soft. | Respective Slides : | |
| Summarise: | | |
| During the session, discuss the Thank the participants and bring the session to a close. | | |

Session Title

Financial and Accounting Framework of Panchayati Raj Institutions.

In this session following points will be discussed-

13. Constitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States.
14. Classification of accounting heads.
15. Computerization of accounting system Panchayats.
16. Model Accounting system & PRIA soft.

1. Constitutional provisions on Accounting Frame work of Panchayat Raj Institutions.

As per Articles 243 J and 243 Z of the Constitution, as amended in 73rd Amendment Act, the State may by law make provision for maintenance of accounts of PRIs/ULBs and their audit. The Rules do not say in what way the Accounts should be kept i.e. whether in single entry basis or double entry cash basis or double entry accrual basis. The accounts and audit mandate, thus, originate in a Legislative Statute. It is the responsibility of the State Govt. to decide the system of keeping of accounts. Most of the States, have prepared separate Accounting Rules and

Procedures for Panchayat Raj Institutions which provide the accounting system to be followed, basic accounts, records/ledgers and formats thereof to be maintained by the a PRI unit. Accounts of PRIs are generally based on the cash based accounting as followed in Governmental accounting system. The accounts represent actual cash receipts and payments during the period of accounts, which is a financial year (1st April to 31st March). As a consequence, accruals of amounts due to or owing by the institutions are not shown in the financial statements, but are kept track of by way of subsidiary records. These accounts mainly keep Receipts and Payments Account which shows the opening balances, lists the amounts received and paid in the period of account and shows the balance on the last day of the account. The accounts of the Panchayati Raj Institutions are also supposed to give the details of sums expended on various functions, programmes and schemes compared with the allocations.

The important feature of the accounting system is integration of budgeting, accounting and reporting. The PRIs have to prepare an annual budget. There is a strong relationship between accounting and

budgeting and the accounting system provides the basis for appropriate budgetary control.

The Receipts and Payments Account is supposed to incorporate or is supposed to be accompanied by the Appropriation Accounts which show the amounts spent in the period of account (financial year) on various functions, upto scheme level (sub-head), as compared with the amounts granted through the annual budget and the variance. However, the method of budgeting and accounting under the service heads is not designed to bring out the relation in which these institutions stand to their material assets in use or their liabilities due to be discharged at more or less distant date. The institutions, therefore, do not prepare balance sheet. The record of assets has, however, to be kept in the institution's records. Information, however, goes so far that most of the institutions do not keep the assets register as well as liabilities register resulting which Income & Expenditure and Balance Sheet are yet to be prepared by most of the institutions. It is also ascertained that accounting format varies from State to State's Panchayat Institutions. The Planning Commission along with Ministry of Finance, Controller General

of Accounts (CGA), State Governments and CAG are working on the Central Plan Scheme Monitoring System (CPSMS) to address the various issues. Till such time, the larger system under CPSMS is put in place, MoPR has worked out a mechanism for efficient management of programmes, funds and planning functions.

This mechanism in fact offers a common platform that could be used for aggregation of information including for assessing inter-relationships among programmes and can be easily integrated into the CPSMS as and when it is rolled out.

Study revealed that 25 States in India and two union territories maintain their accounts on **cash based accounting system**. There are, however, three States, namely, Chhattisgarh, Kerala and Goa who follow accrual based accounting system. In Karnataka, the accrual based accounting system is followed at GP level only. It is obviously a significant development that accrual basis of accounting could be introduced at least at one tier of government in few number of states. It is further observed that only cash books are maintained and no annual accounts are prepared in any tier in Punjab. In West Bengal GPs are preparing

Accounts in cash based double entry accounting system.

As majority of states still maintain their accounts on cash basis, the entire gamut of financial position and performance of PRIs in the form of asset & liabilities, loans, debtors and creditors, receivable & payable, surplus or deficits do not figure in their annual accounts and, thus, the basic purpose of preparing annual accounts gets compromised to a great extent.

2. Classification of accounting heads (List of Codes for Functions, Programmes & Activities of Panchayati Raj Institutions – C&AG of India).

With a view to bringing uniformity, the accounting heads of the PRI have been put under digital system as modeled by the C&AG, who was empowered by the 11th Finance Commission to evolve a uniform system of accounting for local bodies. The codification of functions, programmes and activities of PRIs and the general directions in the above system are broadly patterned on the List of Major/Minor Heads, issued by the Ministry of Finance, Government of India for the accounts of Union and the States.

Under the above system, three heads have been prescribed, separately for Receipts and Expenditure, viz. Major head, Sub-major

head and Minor head. Any addition or deletion of a major head, sub-major head or a minor head may be done only with the approval of the State Accountant General. Below the minor heads, scheme-head or sub-scheme head or object heads can be opened / modified on the recommendation of the administrative and finance department of the State Government after the approval of the State Accountant General. The sub-head of classification denote and identify the schemes undertaken in pursuance of programmes represented by minor heads or components of a particular programme. The basic coding pattern is discussed below:

Major head

A four-digit code has been allotted to the Major Head, the first digit indicating whether Major Head is a Receipt Head or Revenue Expenditure Head, or Capital Expenditure Head or Loan Head. If the first digit is '0' or '1' the head of Account will represent Revenue Receipt, '2' or '3' will represent Revenue Expenditure, '4' or '5' will represent Capital Expenditure and '6' or '7' Loan Head.

Adding '2' to the first digit of the Revenue Receipt will give the number allotted to corresponding to Revenue Expenditure Head,

adding another '2' the Capital Expenditure Head and another '2' the Loan Head of Account, for example-

| | |
|------|---|
| 0401 | Represents the Receipt Head for Crop Husbandry |
| 2401 | The Revenue Expenditure Head for Crop Husbandry |
| 4401 | Capital outlay on Crop Husbandry |
| 6401 | Loans for Crop Husbandry |

Sub-Major head

A two-digit code has been allotted, the code starting from '01' under each major head. Where no Sub-major head exists, it is allotted a code '00'. Nomenclature 'General' has been allotted code '80' so that even after further sub major heads are introduced the code for 'General' will continue to remain the last one.

Minor heads

These have been allotted a three-digit code, the codes starting from '001' under each Sub major/Major head (where there is no Sub major head). Codes from '001' to '100' and few codes '750' to '900' have been reserved for certain standard Minor Heads. For example, codes '001' always represents Direction and Administration. Non-standard Minor Heads have been allotted codes from '101' in the Revenue Expenditure series

'201' in the Capital and Loan series, where the description under Capital/Loan is the same as in the Revenue Expenditure. Code number from '900' is always reserved for Deduct Receipt or deduct Expenditure Heads. The code for 'Other expenditure' is '800', while the code for 'other grants'/'other schemes' is kept as '600'.

3. Computerization of accounting system:

Many states have made many significant efforts in **computerization of accounting system** in Panchayati raj institutions. Study revealed that six states (Assam, Andhra Pradesh, Chatisgarh, Uttar Pradesh, Maharashtra and Tripura) maintain their accounts fully on computerized system while seven States (Karnataka, Himachal Pradesh, Jharkhand, Uttarakhand, Odisha, Bihar and West Bengal) maintain the accounts partly in computerized environment. The remaining States and UTs are yet to introduce the computerization in PRIs.

4. Model Accounting System for Panchayats (MAS) and PRIASoft (accounting software).

To ensure transparency and accountability of the Panchayats, particularly in view of the substantial increase in flow of funds to them a new system of accounting was proposed by

the MOPR. In terms of the Eleventh Finance Commission recommendation the formats prescribed by C & AG in 2002 were further simplified in 2007.

The new simplified accounting format, namely, the 'Model Accounting System for Panchayats' (MAS) has been developed after a detailed exercise involving C&AG, MoPR, Ministry of Finance, Planning Commission, etc. and a number of States. The codification of different account heads of Panchayats was made as far as in the tune of Central Govt. Civil Accounts to streamline the accounting and to monitor different schemes.

For drawl of Performance Grant component, under the 13th FC Award, States need to adopt an accounting framework and codification pattern consistent with the MAS. Recognising the importance of Information and Communication Technology (ICT) in efficient, transparent and online accounting, MoPR has developed a web-based accounting software, namely, PRIASoft to facilitate computerised maintenance of accounts as per the revised formats under MAS and also to facilitate automatic generation of reports, registers and information in the desired formats. It is the software which would capture details of

receipts and expenditure, automatically generate cash book, registers, Utilization Certificate for any scheme. It will generate required registers by just a few basic entries.

The software is incredibly user-friendly and capable of capturing data required for effective planning, budgeting, implementation and monitoring of schemes. The software is available in local languages and it would incorporate the facility of digital signature.

MoPR is further preparing an Accounts Manual and a Training Manual for MAS and PRIASoft. Orissa Government has already prepared a Training Manual for PRI on model accounting system using PRIASoft comprehensively details the accounting principles, procedures, guideline details of financial forms & formats. State Govts. may take help of this manual pending finalization of their own manual.

Status of implementation of MAS/PRIASoft in Panchayat Raj Institutions is as follows:

Assam, A.P., Orissa, U.P., Maharashtra, M.P., Rajasthan, Tripura, H.P. and Sikkim have already issued orders for adopting MAS & PRIASoft.

Haryana, Chhattisgarh, Uttarakhand, Punjab, Bihar and Goa have agreed to implement and are likely to issue orders soon.

Gujarat, Kerala, West Bengal, Karnataka, Tamil Nadu have different accounting systems and accounting softwares. These States need either to adopt or ensure compatibility of their systems with MAS/PRIASoft. In Karnataka 'Panchatantra' and in West Bengal 'IFMAS' & 'GPMS' are being used. In West Bengal they are uploading the data to PRIA soft system from their existing 'IFMAS' & 'GPMS' software through a 'Bridge software'. As on March 31, 2011 accounting of about 50,000 GPs were online.

4.1. Salient features of the simplified format of accounts.

The first four-digit classification in the simplified system is the major head represent function enumerated in the 11th Schedule of the Constitution. The second three-digit classification is the minor head represent the programme/unit of expenditure. However under few major Heads (2851, 2406, 2403, 2211, 2205 and 2202) the minor head represents the function due to clubbing of function enumerated in the Eleventh

Schedule of the Constitution. The third tier two-digit (00 to 99) is the object head which represent the object item of expenditure.

Two-digit standardized object head has been recommended for most commonly used items of expenditure. PRIs may open separate object head as per requirements under each minor head. Similarly, object head under receipts head may be opened as per requirement. Wherever required, the minor head '800-Other Receipts' may be opened under the receipts head and '800-Other Expenditure' under expenditure head.

For better planning, monitoring and decision making, the central schemes have been given distinct two-digit sub-heads. Considering the number of state schemes and diversity among the states, two-digit Alpha-numeric sub-heads may be operated for state schemes. The two-digit standardised object heads may be operated for accounting the scheme requirements as per guidelines issued by Comptroller and Auditor General of India & Ministry of Panchayati Raj, Govt. of India on Model Account Formats for Panchayats 2009.

For assigned revenue from State/Central Govt. minor head '901-Share of net proceeds

assigned to Panchayats' has been opened under relevant receipts Major Heads.

The Accounts have to be kept in two parts, Part I to record transactions of all receipts and expenditure relating to Panchayat Fund and Part II to record transactions relating to provident funds, loans, deposits and advances etc, with close to balances.

a. Functions as per Eleventh Schedule and corresponding Major Head-

All the 29 functions listed in the Eleventh Schedule of the Constitution are classified under 23 major heads. Besides, Major Head 2049- 'Interest Payments', 2071- 'Pension and Other Retirement Benefits' and 2515 – 'Panchayati Raj Programmes' along With relevant receipts and capital Major Heads were opened to facilitate the PRIs to account their activities. Details of Functions and corresponding Major Heads are given in the Annexure appended to this lesson.

4.3. Accounting of other Transactions:

In addition, Panchayats may also operate the following separate major heads to record all transactions (Receipts and Payments/ Disbursement) under Loans, Pension & Provident Fund, Insurance and Pension Fund,

Deposit and Advances and Civil Advance, depending upon the requirement:

7610- Loans to Panchayat Employees

8009- Provident Fund

8011- Insurance and Pension Fund

8443- Civil Deposit

8550- Civil Advances

To record all unclassified transactions not immediately booked under the respective functional major heads due to lack of detail/proper classification in the challan/cheque/voucher, Panchayats may operate '8658-Suspense Accounts'. Panchayat may operate other major heads of accounts to record transactions of each additional function devolved subsequently to the Panchayats by the State Government. The State Government may inform operation of the new major heads to the Pr. Accountant General/Accountant General (Audit) and Accountant General (A&E) of the respective States.

4.4. Accounting Procedure: (a) The accounts are prepared on cash basis i.e. a transaction is only recorded when cash is received or paid.

(b) Period of accounts is a financial year. A financial year is defined as a period of 12 months ending 31st March in any year.

(c) Daily transactions shall be recorded in Cash Book. The receipts shall be recorded on receipts side and payments on payments side. Every day the cash book shall be closed and Closing Balance worked out would then form the Opening Balance for next day. Classification/head of account for each transaction shall be clearly mentioned.

(d) Every day the details of transactions as recorded in the cash book should be transferred to either Register of Receipts if the transaction is receipts or to Register of Payments if it is payment under the respective heads of account

(e) At the end of the month the bank reconciliation and treasury reconciliation should be completed and it should be ensured that all differences between cash book and bank and treasury balances are rectified. If any differences are noticed the corrections should be made then and there in the Register of Receipts and Register of Payments. At the end of the month totals in Register of Receipts and Register of Payments can be struck. This would give the total expenditure under each head of account for the month. Where PRIs and Bank/Treasury are computerized, online reconciliation with Bank/Treasury may be followed.

(f) At the end of each month the totals of Receipts and Payments (upto object head level) are to be posted to the Monthly Receipts and Payment Account.

(g) The monthly figure is added to previous month's progressive total and the figures up to the end of the current month can be worked out in the Consolidated Abstract.

(h) At the end of the year the progressive figure to the end of March can be worked out in the Annual Receipts and Payment Account.

(i) After closing of March Accounts, Reconciliation of Receipts and Expenditure figures with the Departments (online, where facility is available) should be carried out to detect any misclassification and to clear the unclassified transaction booked in the Suspense accounts and all transactions appearing as Transfer entries. The final progressive figure under each head be worked upto the end of March which completes the accounting process for that year.

(j) Receipts and Payment account is prepared on the basis of figures in the Consolidated Abstract.

(k) The Budget of PRIs for the year may be prepared by adopting the classification

prescribed in the Receipts and Payment Account/ List of Codes for functions, programmes and activities prescribed.

(l) On the basis of these formats, the State Government may formulate Budgeting/ Accounting rules and manuals for keeping of budget/accounts for Panchayati Raj Institutions in consultation with the State Accountants General.

(m) Refund of revenues/re-imburement of expenditure of the current year is to be accounted as reduction of receipts/ expenditure.

(n) Bank/Treasury Reconciliation Statements, Register of Receivable and Payable, Register of Movable and Immovable property, Register of Inventory, Register of Demand, Collection and Balance form integral part of the annual accounts. Maintenance of these register would help in subsequent switch over to the modified accrual system of accounting.

4.5. Simplified Procedures for Transfer Entries-

Transfer entries are passed to rectify misclassification of transaction in accounts and to facilitate eventual accounting under final heads of account. The procedure of transfer entries can pose difficulties in grassroots level organizations where the

accounting systems are in a relatively nascent stage and may not have such intricacies and complexities requiring sophisticated degree of knowledge and skills as is expected in higher tiers of government.

To simplify the accounting process further, it is proposed that Transfer Entries may not be required for those tiers of PRIs where the number of transactions are less and corrections if any can be carried out manually by striking down the wrong entry with red ink and inserting the correct entry in the cash book as well as Register of Receipts and Payments and if required in the Monthly and Annual Accounts.

If the mistakes are noticed after closure of the monthly accounts and before closure of annual accounts, it can be rectified as detailed hereunder:

Example 1: A sum of Rs.1000/- being Property Tax collected in the month of June 2008 has been misclassified as Entertainment Tax. The mistake is noticed after the closure of Monthly Accounts in the month of December 2008.

Solution: Minus Credit under the Head Entertainment Tax i.e. MH 0045-101 (to be deducted) is posted in Register of Receipts and a small note recorded indicating the

reason for the minus credit. Credit is given under the Head Property Tax i.e. MH 0035-101 in Register of Receipts and a small note indicating the reason for the plus credit is recorded. This has to be done in the month in which the error/misclassification is noticed and rectified (December 2008).

Example 2: A sum of Rs.9000/- for the month of November 2008 towards payment of overtime allowance to Primary School Teachers of Education Department was misclassified as office Expenditure of Primary Health Centre of Health Department. This mistake is noticed after the closure of Monthly Accounts of November 2008.

Solution: The Head which has been wrongly debited should be given a minus debit i.e. Minus Debit (to be deducted from the expenditure of the head) is to be posted in the Register of Payments against the 2210-101-08 and a small note recorded indicating the reason for the minus debit. Similarly a contra debit is given in the Register of Payments, against the Head which was not debited earlier 2202-101-03 and a small note recorded indicating the reason for the contra debit. This has to be done in the current month in which the error/misclassification is noticed and rectified.

4.6. If mistakes are noticed after closure of annual accounts:

No need to change annual accounts but to have a true picture of revenue receipts and revenue expenditure, 'a note of error' will be made in the Annual Accounts against the Head where the error was committed. If any receipts on account of error/misclassification occurs the same will be taken into cash book with a small note and becomes part of the current balance.

4.7. If misclassification occurs in scheme expenditure and noticed after the closure of annual accounts:

If the mistake is noticed after the Annual Accounts are closed and the items of expenditure are related to different schemes under Revenue/Capital Heads, the progressive figures have to be changed by (+) and (-) entries against the heads concerned in order to arrive the correct figures if the schemes are continued further next financial year following the procedure explained in above categories.

A new version of PRIASoft (Panchayati Raj Institutions Accounting Software) that captures the 3-tier revised classification and generates all the reports in the formats prescribed by the sub-Committee on Budget

and Accounting Standards for PRIs is being brought out by CAG & MOPR in collaboration with NIC. Accordingly, NIC is working closely with CAG to come out with a new version of PRIASoft (PRIA Soft ver. 2.0), which will have the following features:

The three tier accounting classification consisting of Major Heads, Minor Heads and Object Heads will be captured by the software. In addition, as defined by CAG in the revised classification, wherever Central/State scheme activities are to be captured as per the Scheme guidelines, the software will provide for accounting the scheme as a Sub-head under the respective Minor Head.

ANNEXURE

Functions as per Eleventh Schedule and corresponding Major Head

| Sl. No. | Functions listed in the XI th Schedule of the Constitution | Nomenclature of the Revised Major Head | Corresponding Major Heads | | |
|---------|--|---|---------------------------|---------------------|---------------------|
| | | | Receipts | Revenue Expenditure | Capital Expenditure |
| 1 | Agriculture, including Agricultural Extension | Agriculture, including Agricultural Extension | 0435 | 2435 | 4435 |
| 2 | Land Improvement, Implementation of Land Reforms, Land Consolidation and Soil Conservation | Soil and Water Conservation | -- | 2402 | 4402 |
| 3 | Minor Irrigation, Water Management and Watershed Development | Minor Irrigation | 0702 | 2702 | 4702 |
| 4 | Animal Husbandry, Dairying and Poultry | Animal Husbandry, Dairying, Poultry and Fuel and Fodder | 0403 | 2403 | -- |
| 5 | Fisheries | Fisheries | 0405 | 2405 | 4405 |
| 6 | Social Forestry and Farm Forestry | Forestry | 0406 | 2406 | 4406 |
| 7 | Minor Forest Produce | Minor Forest Produce | 0406 | 2406 | 4406 |
| 8 | Small Scale Industries, including Food Processing Industries | Village and Small Scale Industries | 0851 | 2851 | 4851 |
| 9 | Khadi, Village and Cottage Industries | Village and Small Scale Industries | 0851 | 2851 | 4851 |
| 10 | Rural Housing | Rural Housing | 0216 | 2216 | 4216 |
| 11 | Drinking Water | Water Supply and Sanitation | 0215 | 2215 | 4215 |
| 12 | Fuel and Fodder | Animal Husbandry, Dairying, Poultry and Fuel and Fodder | 0403 | 2403 | -- |
| 13 | Roads, Culverts Bridges, Ferries, Waterways and Other Means of Communication | Transportation | | 3054 | 5054 |
| 14 | Rural Electrification, including Distribution of Electricity | Rural Electrification | 0801 | 2801 | 4801 |
| 15 | Non-conventional Energy Sources | Non-conventional Sources of Energy | 0810 | 2810 | 4810 |
| 16 | Poverty Alleviation Programme | Poverty Alleviation Programme | -- | 2501 | -- |
| 17 | Education, including Primary and Secondary Schools | Education | 0202 | 2202 | 4202 |
| 18 | Technical Training and Vocational Education | Technical Training and Vocational Education | -- | 2203 | -- |

| | | | | | |
|----|---|---|---------------------|---------------------|---------------------|
| 19 | Adult and Non-formal Education | Education | 0202 | 2202 | 4202 |
| 20 | Libraries | Art, Culture and Libraries | -- | 2205 | 4205 |
| 21 | Cultural Activities | Art, Culture and Libraries | -- | 2205 | 4205 |
| 22 | Markets and Fairs* | Market and Fairs | 0206 | 2206 | 4206 |
| 23 | Health and Sanitation, including Hospitals, Primary Health Centres and Dispensaries | Health and Family Welfare Water Supply and Sanitation | 0210 0215 | 2210 2215 | 4210 4215 |
| 24 | Family Welfare | Health and Family Welfare | -- | 2210 | -- |
| 25 | Women and Child Development | Women and Child Welfare | -- | 2211 | -- |
| 26 | Social Welfare, including Welfare of the Handicapped and Mentally Retarded | Social Security and Welfare | -- | 2235 | 4235 |
| 27 | Welfare of the Weaker Sections, and in particular, of the Scheduled Castes and the Scheduled Tribes | Welfare of Scheduled Castes, Scheduled Tribes and Other Weaker Sections | -- | 2225 | -- |
| 28 | Public Distribution System | Public Distribution System | | 2408 | 4408 |
| 29 | Maintenance of Community Assets | Maintenance of Community Assets | 0059 | 2059 | -- |
| | Additional Heads | Interest Receipts/Payment | 0049 | 2049 | -- |
| | | Pension and Other retirement benefits | 0071 | 2071 | -- |
| | | Panchayati Raj Programmes | 0515 | 2515 | 4515 |

* New Major Head '2206 – Market and Fairs' along with the relevant Receipts and Capital Major Heads has been prescribed since large number of transactions under market and fairs takes place at PRI level.

List of Standard object heads created

| | | |
|--------------------------|----------------------------------|----------------------------------|
| 01 Salaries (1) | 11 Printing | 21 Motor Vehicles/hiring charges |
| 02 Wages | 12 Other Administrative Expenses | 22 Machinery and Equipment |
| 03 Overtime Allowance | 13 Supplies and Materials | 23 Major Works |
| 04 Pensionary charges | 14 Petrol/Diesel | 24 Write off / losses |
| 05 Honoraria | 15 Advertising and Publicity | 25 Deduct recoveries |
| 06 Medical treatment | 16 Other Contractual Services | 26 Maintenance |
| 07 Travel Expenses | 17 Grants – in – aid | 80 Other Expenditure |
| 08 Office Expenses (2) | 18 Contributions | |
| 09 Rent, Rates and Taxes | 19 Subsidies | |
| 10 Audit Fee | 20 Share of taxes / duties | |

Note: (1) Items to be included in this object head are (i) Pay of officers, (ii) Dearness pay of officers, (iii) Dearness Allowance of Officers, (iv) Pay of establishment, (v) Dearness pay of establishment, (vi) Dearness Allowance of establishment, (vii) Bonus , (viii) Interim relief, (ix) Other allowances (CCA, HRA & other fixed allowances), (x) Children education allowances,(xi) LTC, (xii) Transport allowance.

Note: (2) Items to be included in this object head are (i) Local purchase of stationery, (ii) Liveries,(iii) Telephone & trunk calls, (iv) Furniture,(v) Service postage stamps,(vi) Purchase of books & publications, (vii) Office expenses and miscellaneous ,(viii) Staff car,(ix) Water cooler,(x) Typewriter, (xi) Purchase of accounting machine, (xii) Charges paid to the State Government for Police Guards,(xiii) Hot and cold weather charges,(xiv) Electricity & water charges,(xv) Purchase of photo copier,(xvi) Purchase of computer & laser printer.

Notes (3): The object head is linked to only payment, but not to Receipt heads.

LIST OF STANDARD SUB HEADS FOR CENTRAL SCHEMES

| Proposed scheme code for simplified accounts for PRIs | Scheme Description |
|---|--|
| 11 | National Rural Employment Guarantee Scheme (NREGS) |
| 12 | Sampoorna Gramin Rozgar Yojana (SGRY) |
| 13 | Swaranjayanti Gram Swarozgar Yojana(SGSY) |
| 14 | Indira Awas Yojana (IAY) |
| 15 | National Rural Health Mission (NRHM) |
| 16 | Accelerated Rural Water Supply Programme (ARWSP) |
| 17 | Total Sanitation Campaign |
| 18 | Mid Day Meal Scheme |
| 19 | Sarva Shiksha Abhiyan |
| 20 | Pradhan Mantri Gram Sadak Yojana (PMGSY) |
| 21 | Integrated Watershed Management Programme |
| 22 | Integrated Child Development Services (ICDS) |

Example to book expenditure of Central Scheme NRHM

2210 Health and Sanitation (Major Head)

101 Primary Health Centre (Minor Head)

15 NRHM (Sub-Head)

02 Wages (Object Head)

Example to book receipts of grants:

Similarly, an example to book receipts of grants under various sub plans is indicated below:

1601 Grants and aid (Major Head)

101 Grants from GOI (Minor Head)

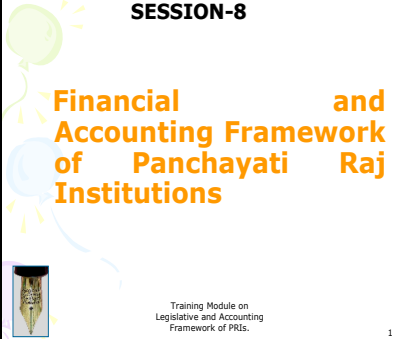
15 NRHM (Sub Head)

Source: MODEL ACCOUNTING SYSTEM for PANCHAYATS (Formats, Guidelines and List of Codes) Issued by CAG & MOPR, in October, 2009.

Slide 1

SESSION-8

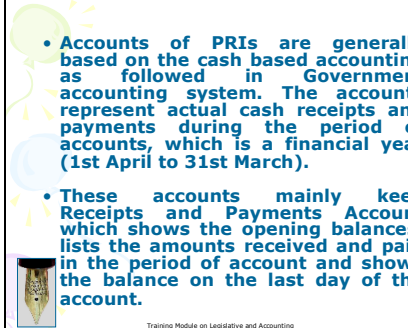
Financial and Accounting Framework of Panchayati Raj Institutions



Training Module on Legislative and Accounting Framework of PRIs. 1

Slide 4

- Accounts of PRIs are generally based on the cash based accounting as followed in Government accounting system. The accounts represent actual cash receipts and payments during the period of accounts, which is a financial year (1st April to 31st March).
- These accounts mainly keep Receipts and Payments Account which shows the opening balances, lists the amounts received and paid in the period of account and shows the balance on the last day of the account.

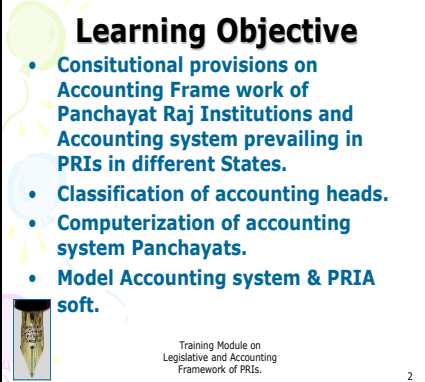


Training Module on Legislative and Accounting Framework of PRIs. 4

Slide 2

Learning Objective

- Constitutional provisions on Accounting Frame work of Panchayat Raj Institutions and Accounting system prevailing in PRIs in different States.
- Classification of accounting heads.
- Computerization of accounting system Panchayats.
- Model Accounting system & PRIA soft.

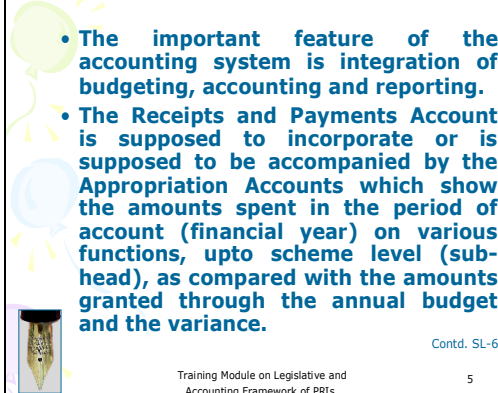


Training Module on Legislative and Accounting Framework of PRIs. 2

Slide5

- The important feature of the accounting system is integration of budgeting, accounting and reporting.
- The Receipts and Payments Account is supposed to incorporate or is supposed to be accompanied by the Appropriation Accounts which show the amounts spent in the period of account (financial year) on various functions, upto scheme level (sub-head), as compared with the amounts granted through the annual budget and the variance.

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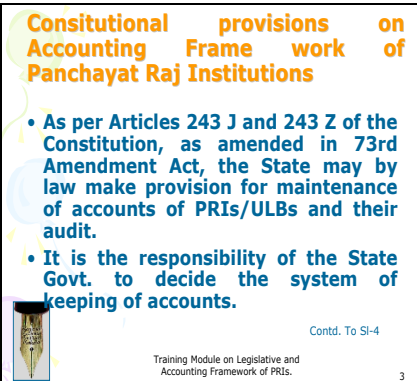
Training Module on Legislative and Accounting Framework of PRIs. 5

Slide 3

Constitutional provisions on Accounting Frame work of Panchayat Raj Institutions

- As per Articles 243 J and 243 Z of the Constitution, as amended in 73rd Amendment Act, the State may by law make provision for maintenance of accounts of PRIs/ULBs and their audit.
- It is the responsibility of the State Govt. to decide the system of keeping of accounts.

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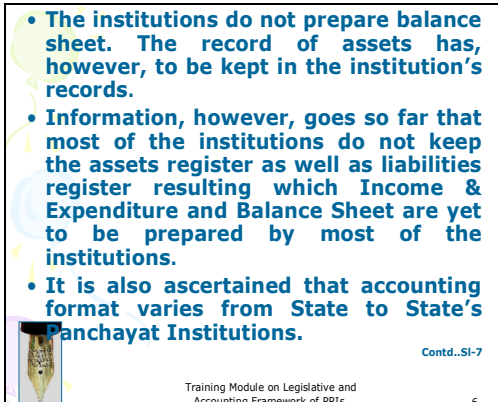


Training Module on Legislative and Accounting Framework of PRIs. 3

Slide6

- The institutions do not prepare balance sheet. The record of assets has, however, to be kept in the institution's records.
- Information, however, goes so far that most of the institutions do not keep the assets register as well as liabilities register resulting which Income & Expenditure and Balance Sheet are yet to be prepared by most of the institutions.
- It is also ascertained that accounting format varies from State to State's Panchayat Institutions.

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Classification of accounting heads

- With a view to bringing uniformity, the accounting heads of the PRI have been put under digital system as modeled by the C&AG, who was empowered by the 11th Finance Commission to evolve a uniform system of accounting for local bodies.
- The codification of functions, programmes and activities of PRIs and the general directions in the above system are broadly patterned on the List of Major/Minor Heads, issued by the Ministry of Finance, Government of India for the accounts of Union and the States.

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Slide 10

Model Accounting System for Panchayats (MAS) and PRIASoft

- The new simplified accounting format, namely, the 'Model Accounting System for Panchayats' (MAS) has been developed involving C&AG, MoPR, Ministry of Finance, Planning Commission, etc. and a number of States.
- The codification of different account heads of Panchayats was made as far as in the tune of Central Govt. Civil Accounts to streamline the accounting and to monitor different schemes.

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- Under the above system, three heads have been prescribed, separately for Receipts and Expenditure, viz. Major head, Sub-major head and Minor head.
- Any addition or deletion of a major head, sub-major head or a minor head may be done only with the approval of the State Accountant General.
- Below the minor heads, scheme-head or sub-scheme head or object heads can be opened / modified on the recommendation of the administrative and finance department of the State Government after the approval of the State Accountant General.

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- MoPR has developed a web-based accounting software, namely, PRIASoft
- to facilitate computerised maintenance of accounts as per the revised formats under MAS,
- to facilitate automatic generation of reports, registers and information in the desired formats.
- It is the software which would capture details of receipts and expenditure, automatically generate cash book, registers, Utilization Certificate for any scheme.
- It will generate required registers by just a few basic entries.

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Slide 9

Computerization of accounting system - implementation in different states.

- Many states have made many significant efforts in computerization of accounting system in Panchayati Raj Institutions.
- Study revealed that six states (Assam, Andhra Pradesh, Chattisgarh, Uttar Pradesh, Maharashtra and Tripura) maintain their accounts fully on computerized system.
- Seven States (Karnataka, Himachal Pradesh, Jharkhand, Uttarakhand, Odisha, Bihar and West Bengal) maintain the accounts partly in computerized environment.

• The remaining States and UTs are yet to introduce the computerization in PRIs.

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- The software is incredibly user-friendly and capable of capturing data required for effective planning, budgeting, implementation and monitoring of schemes.
- The software is available in local languages and it would incorporate the facility of digital signature.

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