

## CHAPTER I

### **An Overview of the Panchayati Raj Institutions and Urban Local Bodies**

#### **Introduction**

##### **1.1.1 Constitutional background and brief profile**

In keeping with the provisions of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments a three-tier system of PRIs and ULBs has been established in the State as under: -

#### **PRIs**

- Gram Panchayat (GP) at the village level
- Janpad Panchayat (JP) at the block level and
- Zilla Panchayat (ZP) at the district level.

At present there are 48 ZPs, 313 JPs and 23051 GPs in the state. The three-tier system of PRIs which was governed by Madhya Pradesh Panchayat Raj Avam Gram Swaraj Adhiniyam (Act), 1993 came into force in January 1994. The last general elections for the panchayats were held during 2004-05.

#### **ULBs**

- Municipal Corporations (For a large urban area),
- Municipal Councils (Municipalities - for smaller urban area) and
- Nagar Panchayats (For a transitional area)

At present there are 14 Municipal Corporations, 87 Municipal Councils and 237 Nagar Panchayats in the State. Three-tier system of ULBs which was governed by Municipal Corporation (MC) Act 1956 and Madhya Pradesh Municipalities (MPM) Act 1961 came into force in 1993. The last general elections for the ULBs were held during 2005-06.

A State Finance Commission (SFC) was to be appointed to review the financial position of the PRIs/ULBs and recommend as to (i) the distribution of the net proceeds of taxes, duties, tolls and fees leviable by the state, between the state and the panchayats and the allocation between the Panchayats at all levels of their respective shares of such proceeds (ii) taxes, duties, tolls and fees to be assigned to the Panchayats; and (iii) grants-in-aid to Panchayats. For these purposes, I<sup>st</sup>, II<sup>nd</sup> and III<sup>rd</sup> SFC were constituted vide MP Gazette notification dated 17 June 1994, 17 June 1999 and 30<sup>th</sup> August 2005 respectively. Out of 149 recommendations submitted by the I<sup>st</sup> and II<sup>nd</sup> SFC, 77 recommendations were accepted by the State Government (as detailed in **Appendix I**). Third SFC did not submit their report (July 2007).

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### **1.1.2 Devolution of functions, functionaries and funds -**

According to articles 243 (G and W) of the Constitution, the devolution of functions, functionaries and funds to PRIs and ULBs was required for implementation of schemes of economic development and social justice including those in relation to matters listed in the Eleventh and Twelfth Schedule of the Constitution as shown in the **Appendix II**. According to records made available by the State Government, audit observed that all functions (PRIs : 29 and ULBs : 18) were devolved but functionaries of 12 departments and funds of 11 functions of PRIs (as detailed in **Appendix II**) were not transferred. Similarly, functionaries and funds related to the functions of ULBs were not transferred. Reasons for the same were not given although called for (August 2007).

### **1.1.3 Population covered**

Total areas (3,08,000 sq. km.) of the state was covered by 4.44 crore of rural population (74 per cent) and 1.59 crore of Urban population (26 per cent) of the total population (6.03 crore) as per 2001 census. Of this, 0.90 crore (15 per cent) and 1.21 crore (20 per cent) were Schedule Caste and Schedule Tribe.

## **1.2 Organisational Set Up**

The Department of Panchayat and Rural Development (For PRIs) and the Department of Urban Administration and Development (For ULBs) were headed by the Principal Secretary/Secretary who was assisted by Deputy Secretary and Under Secretary in the State departments for administrative control and regulation. The organogram depicting the organisational structure of the Departments, PRIs and ULBs at District, Block and Village levels is given in **Appendix III**.

## **1.3 Financial Profile**

### **1.3.1 Sources of funds**

There were mainly two sources of funds for Local Bodies (i) Government grants (ii) own revenues. Funds required for the execution of various development activities were provided by the State Government and the Government of India.

### **1.3.2 Financial outlay and application of funds**

Funds allocated to Local Bodies by Government of India (including Eleventh & Twelfth Finance Commission grants) and State Government during 2003-04 to 2005-06 through state budget were as under:-

(Rs. in crore)

Sl. No.	Year	Grant Number and Major Head		Total grant <sup>1</sup> (Budget Provisions)		Actual Expenditure <sup>1</sup>		Excess(+)/ Savings (-)	
		PRI	ULB	PRI	ULB	PRI	ULB	PRI	ULB
1	2	3	4	5	6	7	8	9	10
1.	2003-04	15,80,82 and 68 (Complete grant), 30 (2515)	22,53,81,83, and 94 (Complete grant)	1320.29	1095.21	1149.90	918.41	(-) 170.39	(-) 176.80
2.	2004-05	15,80,82,62 and 68 (Complete grant), 64 (2515)	22,53,81,83, and 94 (Complete grant)	1576.30	1020.30	1437.45	933.41	(-) 138.85	(-) 86.89
3.	2005-06	15,80,82 and 62 (Complete grant), 64 (2515)	22,53,81,83, and 94 (Complete grant)	1957.96	1266.87	1839.30	1177.57	(-) 118.66	(-) 89.30
	<b>Total</b>			<b>4854.55</b>	<b>3382.38</b>	<b>4426.65</b>	<b>3029.39</b>	<b>(-) 427.90</b>	<b>(-) 352.99</b>

The expenditure shown above was mainly on financial assistance, basic services, training, preparation/maintenance of accounts and data base, Solid Waste Management and Sinhasth Mela 2004 (Kumbh Mela) etc. The above figures also indicate that the budget provisions increased by 32 and 14 per cent respectively in PRIs and ULBs sectors during the year 2005-06 with reference to the year 2003-04.

The information regarding own revenues (Tax, Non tax and others) collected by local bodies and the revenues actually collected and assigned to the local bodies was not made available by both the Directorates.<sup>2</sup> It was stated (July & October 2006) that the same would be collected from the districts and produced to audit. But the same was still awaited (January 2008). Absence of details regarding utilisation of the allotted funds is a matter of grave concern, since it could not be ascertained whether expenditure was incurred for the purpose for which it was allotted and the desired objectives were fulfilled.

Besides, the financial position of major schemes implemented in PRIs and ULBs' sectors (As detailed in **Appendix IV**) were as under:

(Rs. in crore)

S. No.	No. of Schemes implemented in		Amount allocated during the year					
	PRI Sectors	ULB Sectors	2003-04		2004-05		2005-06	
			PRI	ULB	PRI	ULB	PRI	ULB
1.	11	22	995.25	211.62	1075.58	121.25	NA	222.69

<sup>1</sup> The figures of budget provisions and actual expenditure were worked out on the basis of the Appropriation Accounts of State Government.

<sup>2</sup> Panchayat and Rural Development Department (Panchayat Directorate).  
Urban Administration and Development Department (Directorate).

The above table shows that the central and state share for implementation of the schemes increased by eight per cent for PRIs during the year 2004-05 and five per cent for ULBs during the year 2005-06 with reference to the year 2003-04.

### **1.3.3 Overall financial position of PRIs and ULBs**

For depiction of the overall financial position, physical progress of programmes/schemes etc., formats of data base on finances and formats for preparation/ maintenance of budget and accounts were prescribed by the CAG. The PRIs and ULBs are yet to compile data in the prescribed formats in the absence of which overall financial position could not be ascertained by audit.

## **1.4 Accounting arrangements**

**1.4.1** The Eleventh Finance Commission (EFC) recommended that the Comptroller and Auditor General of India (CAG) would be responsible for exercising control and supervision over the proper maintenance of the accounts and their audit for all the three tiers/levels of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). But PRIs' and ULBs' Acts were neither amended to empower the CAG (February 2007) nor any response was given even after regular correspondence with the State Government. Besides, EFC instructed that the Director for Panchayats or for ULBs was in no case be entrusted with the work of audit of accounts of LBs, but the audit of Gram Panchayat was still being conducted by the Panchayat Department which was contrary to the guidelines of EFC.

### **1.4.2 Adoption of accounts and budget formats**

Formats for preparation of budget and keeping of accounts for the LBs were prescribed by the CAG which were accepted by the State Government. PRI although adopted the accounts format and developed software (Panch lekha), yet the accounts were not compiled at State Level due to non-receipt of informations from District Committees. Whereas the Government of Madhya Pradesh, Urban Administration and Development Department had agreed (June 2004) in principle to adopt the formats yet the final action for adoption was awaited (July 2007). However, it was found (August 2007) that the department published (July 2007) a Madhya Pradesh Municipal Accounts Manual in which these formats were published for implementation.

### **1.4.3 Pending reconciliation work**

Financial rules require Departmental Controlling Officers to reconcile periodically the departmental figures of expenditure with those booked by the Accountant General (A&E). The reconciliation work of expenditure figures related to the Department of Panchayat and Social Justices for the year 2005-06 was yet to be completed by 13 districts. On being pointed out, the department stated (July 2006) that the reasons for the same would be obtained from the districts and intimated to audit. In case of ULBs, the position regarding reconciliation was not available in the Directorate of Urban Administration and Development (October 2006).

#### 1.4.4 Delay in crediting of Twelfth Finance Commission Grants

The position of release and utilisation of grants of Twelfth Finance Commission during the year 2005-06 was as under:

**(Rs. in crore)**

Year	Particulars	Grant received from the centre <sup>3</sup>	Grant allocated by State Govt. to local bodies <sup>3</sup>	Grant utilised	Remarks
1	2	3	4	5	6
2005-06	PRI's	332.60	332.60	162.55	utilised amount pertained to water supply, civic services and sanitation only.
--do--	ULB's	72.20	72.20	72.20	NA

As envisaged in para 6.1 and 6.4 of the guidelines for release and utilisation of grants recommended by Twelfth Finance Commission and circulated vide GOI Ministry of Finance, Department of Expenditure (June 2005), States were required to mandatorily transfer the grants released by the centre to PRI's and ULB's within 15 days of the same being credited to the State's Account concerned. In case of delayed transfer to PRI's/ULB's beyond the specified period of 15 days, the State Government shall transfer an amount of interest to PRI's/ULB's at the rate equal to the RBI Bank rate alongwith such delayed transfer of grants.

Based on the information and certificate received from the State Government, a test check of bank accounts of 131 PRI's and 35 ULB's in various units was conducted in January 2006. The test check of these units revealed that there was delay of 15 days to 3 months in crediting the funds to their respective bank accounts. On being pointed out regarding payment of interest on delayed transfer of grants (February 2006 and August 2007), no reply was furnished so far by the State Government.

#### 1.4.5 Status of creation of Data base on finances:

Data base on finances was to be collected and compiled in standard formats as prescribed by CAG and accepted by the State Government. Out of eight formats, the financial information for Format Nos. 1,2,3,4 and 5 was to be compiled from the accounts/budget formats. The information required in Format No.6&7 was to be collected and compiled from the additional records maintained by PRI's/ULB's. The information in Format No.8 was to be compiled at State level which was not being compiled in the absence of informations to be received from the districts.

Against the total grant of Rs. 16.93 crore<sup>4</sup> for computerisation, creation of data base and networking, an expenditure of Rs. 6.53 crore was incurred on

<sup>3</sup> Grants were allocated to PRI's and ULB's for creation of accounts, O&M costs of water supply, schemes of Solid Waste Management and maintenance of civic Services etc.

<sup>4</sup> Rs. 16.93 crore: (2003-04: Rs. 3.56 cr + 2004-05: Rs. 6.29 cr and 2005-06: Rs. 7.08 crore).

providing computers, training and development of Panch Lekha Software by PRIs. The total grant and actual expenditure there against during the year 2003-04 to 2005-06 for development of data base on finances and account formats of PRIs and ULBs at district level were as under:

**(Rupees in crore)**

S. No.	Particulars	Head of Accounts	Year	Total grant or Appropriation	Actual expenditure	Excess (+)/ Saving (-)
1	2	3	4	5	6	7
1.	PRIs	G.No.68/2515/1560 and 5184 Financial assistance to local bodies computerisation and preparation of data base recommended by EFC.	2003-04	3.56	6.53	(+) 2.97
	ULBs	----do-----		NA*	NA	NA
2.	PRIs	----do-----	2004-05	6.29	--	(-) 6.29
	ULBs	----do-----		NA	NA	NA
3.	PRIs	G.No. 80/2515/6905 Financial Maintenance of local bodies	2005-06	3.98	3.98	--
		G.No. 82/2515 Financial assistance to local bodies	---do---	1.76	1.76	--
	ULBs			NA	NA	NA

\*Not Available

On being enquired by audit, the Directorate (Panchayat) stated (July 2006) that the Committee constituted at the district level for feeding the information was required to submit the position of finances and review-report of expenditure incurred on scheme to his office but the said information/review-report were not made available by the district committees. In case of ULBs, implementation of the formats was pending. The details of computerisation work done, if any, were also not made available by the Directorate of Urban Administration and Development to audit.

### 1.5 Audit arrangement and coverage

- The audit of PRIs and ULBs was entrusted to the Director, Local Fund Audit (DLFA) vide section 4 (i) (Notification dated 30<sup>th</sup> June 1975) under Madhya Pradesh Sthaniya Nidhi Sampariksha Adhiniyam, (Act) 1973. The Act was further modified (December 2001) to include the audit of Gram Panchayats but the audit of GPs is still being conducted by Director Panchayat, in contrary to the provisions of the DLFA Act. Besides, the Madhya Pradesh Finance Department (MPFD) decided (November 2001) that DLFA would be made responsible for audit of accounts of local bodies and would work under the Technical Guidance and Supervision (TGS) of the CAG as recommended by EFC.

- The DLFA was required to prepare the audit plan in consultation with the Principal Accountant General (PAG), as a part of the TGS assignment. However, the audit plan of DLFA were not got approved by the PAG.
- MPFD informed (December 2001) that the XI<sup>th</sup> Finance Commission recommended that the report of CAG relating to audit of accounts of PRIs and ULBs was to be placed before Committee of the State legislature constituted on the same lines as Public Accounts Committee. The Committee is yet to be constituted.
- The consolidated position of units planned and actually covered in the State by the DLFA was not made available. It was further noticed that the audit of 47 Gram Panchayats (out of 23051) was conducted by the DLFA from the year 2001-02 to date which was not adequate. On enquiry, the DLFA stated (August 2007) that audit could not be conducted due to lack of staff and facilities.