

## SECTION A

### CHAPTER I

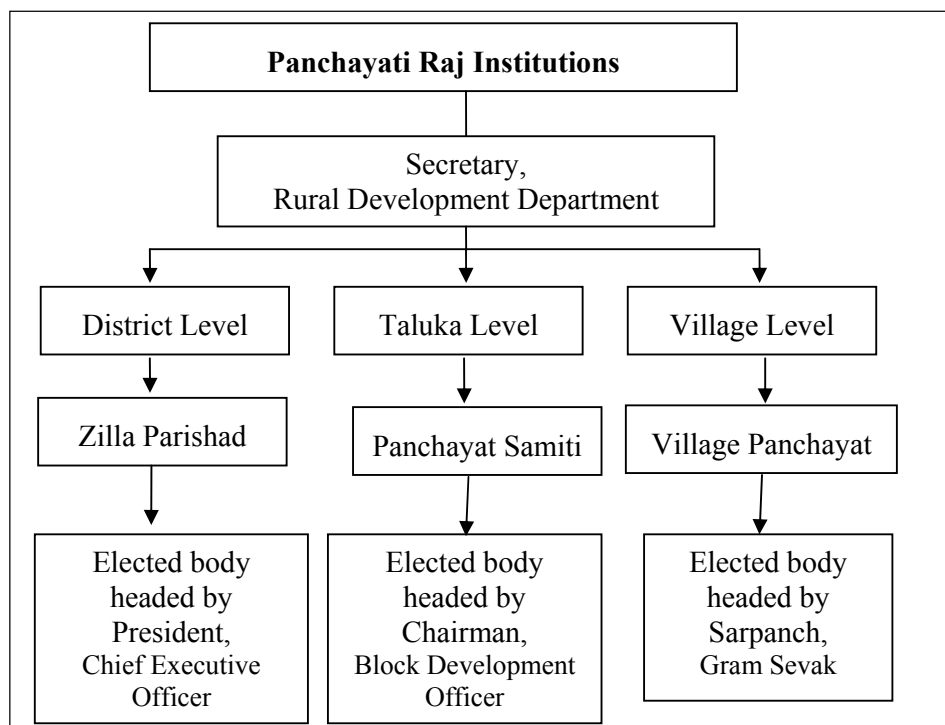
#### ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

##### 1.1 Introduction

1.1.1 In conformity with the provisions of the 73<sup>rd</sup> Constitutional Amendment, the Maharashtra Zilla Parishad and Panchayat Samitis Act, 1961 (ZP Act) and the Bombay Village Panchayat Act, 1958 (VP Act), were amended in 1994. A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZP) at the district level, Panchayat Samitis (PS) at the block level and Village Panchayats (VP) at the village level was established in the State. As per the 2001 Census, the total population of the State was 9.69 crore, of which the rural population was 5.58 crore i.e 57.58 *per cent* of total population of the State. Election to PRIs were held in March 2007. The Act provides for constitution of State Finance Commission (SFC) every five years to review the financial position of Panchayats and District Planning Committees.

##### 1.2 Organisational Set up

1.2.1 The organizational set up of PRIs in Maharashtra is depicted below:



**1.3 Powers and Function**

**1.3.1** Zilla Parishads are the first tier of Panchayat at the district level. As of March 2007 there were 33 ZPs in the State. Chief Executive Officer (CEO) is the administrative head and assisted by departments like, Finance, Public Health, Agriculture, Works *etc.*

**1.3.2** The ZPs were required to prepare the budget for the planned development of the District and utilisation of the resources. Government of India(GOI) schemes, funded through the District Rural Development Agency and State Government schemes were also implemented by the ZP. In Maharashtra, the ZPs are empowered to impose water tax, pilgrim tax and special tax on land and building.

**1.3.3** Panchayat Samiti is the intermediate tier of Panchayat at the Taluka level. As of March 2007, there were 351 PSs in the State. The PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. The PSs undertake developmental works at the block level.

**1.3.4** Village Panchayat is the last tier of Panchayat at the grass root level. As of March 2007, there were 27916 VPs in Maharashtra.

**1.3.5** The amended VP Act provides for the constitution of Gram Sabha, which is the body consisting of persons registered in the electoral rolls of the villages within the VP area. The VPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/ entertainments, taxes on bicycles, vehicles, shops, hotels *etc.*

**1.3.6** Gram Sabhas are empowered with disciplinary control over VP employees and are required to meet periodically. They select beneficiaries for the State/Central Government schemes, approve development plans and projects to be implemented by the VPs, grant permission for incurring expenditure by the VPs on developmental schemes. They also convey their views on proposal for acquisition of land by the VPs.

**1.3.7** The broad accountability structure in the PRIs is detailed below:

	<b>Functions Assigned</b>
<b>Zilla Parishad</b> Chief Executive Officer (CEO)	<ol style="list-style-type: none"><li>1. Drawal and disbursal of fund</li><li>2. Preparation of annual budget and accounts</li><li>3. Supervision and control of officers of the ZP</li><li>4. Finalisation of contracts</li><li>5. Publishing statement of accounts of PSs in the Government Gazette</li></ol>

Chief Accounts and Finance Officer(CAFO)	1. Compilation of the accounts of the ZP 2. Providing financial advice
Heads of Departments (HODs)	1. According technical sanctions to the works 2. Supervising the work of Class II officers
<b>Panchayat Samiti</b> Block Development Officer (BDO)	1. Drawal and disbursal of fund 2. Acquisition, sale or transfer of property 3. Preparation of statements of accounts
<b>Village Panchayat</b> Gram Sevak	1. Secretary to the Gram Sabha 2. Execution and monitoring of schemes and maintenance of records

#### **1.4 Funding of Panchayati Raj Institutions**

**1.4.1** The District Fund consists of money received from the Central Government, grants for centrally sponsored schemes, funds from plan and non plan schemes of the State Government, assigned tax and non tax revenues, receipts of ZPs, interest on investments, *etc.*

**1.4.2** In order to tide over the time lag between the approval of the budgets and release of grants by the State Governments, Ways and Means Advances are released by the Rural Development Department on a monthly basis to the ZPs for execution of the schemes/activities/works transferred to them and for payment of pay and allowances to the staff. These advances are finally adjusted out of grants sanctioned by the State Government (Administrative Departments).

**1.4.3** Grants released by the State Government to the ZP are drawn from the district treasury by the ZP. The ZP in turn release the share of funds to the PSs and VPs. Reconciliation of fund transfer as per ZP records with treasury is done by the CAFO every month.

**1.4.4** A fund flow statement depicting the flow of funds to the PRIs is shown in **Appendix I**.

#### **1.5 Devolution of funds**

##### **Allocation of revenue to the PRIs**

As per the recommendations of the Second Maharashtra State Finance Commission (MSFC), 40 *per cent* of State revenues should be allocated to the PRIs, Though this was accepted by the State Government this is not being done. The table below indicate the total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs during the period from 2003-04 to 2006-07.

**(Rupees in crore)**

Sr. No.	Head	2003-04	2004-05	2005-06	2006-07
1	Total revenue of the State <sup>1</sup> (Tax and Non-tax revenues)	28711.10	34724.59	39475.29	47617.49
2	Amount required to be allocated as per SSFC. (40 per cent of 1 above)	11484.44	13889.84	15790.12	19047.00
3	Allocation to PRIs <sup>1</sup>	5784.58	6300.48	7472.84	7321.27
4	Percentage of allocation to State revenue	20.15	18.14	18.93	15.38

The table above indicates that although the Second MSFC had recommended allocation of 40 per cent of the State revenues to PRIs, the actual allocation declined from 20.15 per cent in 2003-04 to 15.37 per cent in 2006-07.

### **1.6 Transfer of functions and functionaries**

**1.6.1** The 73rd Constitutional Amendment envisaged that all 29 functions mentioned in the XI<sup>th</sup> Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

**1.6.2** However, as of March 2008, the State Government had transferred only 214 schemes pertaining to 15 functions to the PRIs. Audit comments on transfer of funds, functions and functionaries are included in Chapter II of this Report.

### **1.7 Receipts and expenditure of VPs and ZPs**

**1.7.1** As per the Annual Reports published by Government of Maharashtra, Directorate of Economics and Statistics for the year 2006-07 and 2007-08, the position of revenue/capital receipts, revenue/capital expenditure in respect of the PRIs for the period from 2004-05<sup>2</sup> to 2006-07 is as follows :

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<sup>1</sup> Vide Report of CAG (Civil), Government of Maharashtra for the year 2005-06 and 2006-07

<sup>2</sup> Source : Economic Survey of Maharashtra

(A) Zilla Parishads<sup>3</sup>

(Rupees in crore)

Year	Receipts						Expenditure		
	Own revenue <sup>4</sup>	Government Grants	Other revenue	Total revenue	Capital receipts	Total receipts	Revenue	Capital	Total
2004-05 <sup>5</sup>	260	6690	Nil	6950	1788	8738	6776	1692	8468
2005-06	154	7394	181	7729	2267	9996	7495	1984	9479
2006-07 <sup>6</sup>	147	7773	189	8109	2692	10801	8161	2314	10475

The total receipts (Capital and Revenue) of ZPs in the State for the year 2006-07 was Rs 10801 crore registering an increase of 8 *per cent* over the previous year's receipts of Rs 9996 crore. However, ZPs own revenue declined from Rs 260 crore in 2004-05 to Rs 147 crore in 2006-07.

The major source of revenue for ZPs during 2006-07 was from Government grants and Capital receipts which constituted 72 and 25 *per cent* respectively of the total receipts of all ZPs.

The PSs accounts are incorporated in ZP accounts.

(B) Village Panchayats<sup>7</sup>

(Rupees in crore)

Year	Revenue Receipts <sup>8</sup>					Revenue Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
2004-05	243	346	112	72	773	758
2005-06	293	381	112	72	858	820
2006-07	376	430	113	71	990	938

The total revenue receipts of all the VPs in the State during 2006-07 registered an increase of 15.38 *per cent* over the receipts of 2005-06. The increase in revenue expenditure during the period was 14.39 *per cent*.

One of the major source of receipts for the VPs in 2006-07 was Government grants of Rs 376 crore constituting 38 *per cent* of the total revenue receipts as against Rs 293 crore in previous year indicating an increase of 28 *per cent*. The other sources of revenue included taxes, contributions and other receipts.

1.7.2 The following are the component wise details of the revenue

<sup>3</sup> Figures adopted from Economic Survey of Maharashtra 2006-07 to 2007-08

<sup>4</sup> excludes opening balance

<sup>5</sup> Actuals for 2004-05 and 2005-06

<sup>6</sup> Revised Estimates

<sup>7</sup> Figures adopted from Economic Survey of Maharashtra 2006-07 to 2007-08

<sup>8</sup> These figures are excluding opening balance. However the revenue receipts of the VPs for 2004-05 indicated in the Audit Report for 2005-06 included opening balance also.

expenditure of VPs and revenue/capital expenditure of ZPs during 2005-06 and 2006-07.

**(Rupees in crore)**

Sr. No.	Components <sup>9</sup>	Village Panchayats expenditure		Zilla Parishad expenditure	
		2005-06	2006-07	2005-06	2006-07
1.	Administration	136	154	569	575
2.	Health and Sanitation	197	241	-	-
3.	Public Works	317	352	502	591
4.	Education	19	20	3489	3638
5.	Irrigation	-	-	216	239
6.	Agriculture	-	-	75	92
7.	Social Welfare	-	-	629	737
8.	Public lighting	41	47	-	-
9.	Animal Husbandry	-	-	100	115
10.	Forests	-	-	9	7
11.	Public Health	-	-	827	946
12.	Welfare of People	54	44	-	-
13.	Other expenditure	56	80	1079	1221
14.	Capital expenditure	-	-	1984	2314
	<b>TOTAL</b>	<b>820</b>	<b>938</b>	<b>9479</b>	<b>10475</b>

**1.7.3** The above table shows that the revenue expenditure of VPs increased from Rs 820 crore in 2005-06 to Rs 938 crore in 2006-07, registering an increase of 14 *per cent*. During the year 2006-07, expenditure on public works constituted the largest component at 38 *per cent* followed by health and sanitation at 26 *per cent*. In the case of irrigation, social welfare, animal husbandry, public health, no expenditure was incurred by the VPs during the period 2005-06 and 2006-07.

**1.7.4** At the ZP level, the expenditure on public works during 2006-07 showed an increase of 18 *per cent* over the previous year.

**1.7.5** The works undertaken by the ZPs comes under the categories of (1) ZPs own schemes (2) schemes transferred/funded by the State Government (3) Schemes funded by other agencies. The expenditure of Rs 10475 crore during 2006-07 indicated in Para 1.7.2 is based on the figures adopted from the Economic Survey of Maharashtra. It was however noticed from the

<sup>9</sup> Figures from Economic Survey of Maharashtra 2006-07 to 2007-08

information received from 32 ZPs<sup>10</sup> for the year 2006-07 that these ZPs incurred an expenditure of Rs 1354.04 crore on their own schemes and Rs 10028.49 crore on Transferred/Agency Schemes. District wise split up of expenditure incurred on transferred and agency schemes and on ZPs own schemes have been given in **Appendix II**. This shows that the figures adopted by the State Government in its Economic Survey was not realistic.

## **1.8 Accounting arrangements**

**1.8.1** Under the provisions of Section 136 (2) of ZP Acts, the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts and under provisions of Section 62 (4) of the VP Act, the Secretaries of the VPs are required to prepare annual accounts of the VPs. The approved accounts are to be forwarded to the ZPs on the prescribed date.

**1.8.2** In accordance with the provisions of Section 136(1) of the ZP Act, CEOs of ZPs are required to prepare every year statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year. These are then required to be placed before the Finance Committee and the accounts are finally to be placed before the ZPs for approval along with the Finance Committee reports.

**1.8.3** The abstracts of the approved accounts of the ZPs/PSs and VPs are prepared by CAFO and forwarded to the Chief Auditor, Local Fund Accounts (CALFA) for audit, certification and publication in the Government Gazette.

**1.8.4** The prescribed date for finalisation of annual accounts of ZPs for a financial year is 30 June of the following year. Accordingly, the accounts for 2006-07 should have been finalised by June 2007. However, it was observed from the information collected (May 2008) from CALFA that none of the 33 ZPs had finalised their accounts for 2006-07. Arrears in finalisation of accounts by the ZPs and certification thereof by the CALFA ranged between two and five years.

**1.8.5** According to Section 136(9) of the ZP Act, the annual accounts of the ZPs, duly approved and certified by the CALFA for a particular year, were required to be published in the Government Gazette by 15 November of the subsequent year. However, information regarding the status of publication of the ZPs' accounts was not available with the Government, although procedure for ensuring timely finalisation and publication of the accounts was prescribed. Arrears in finalisation and publication of accounts is indicative of

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<sup>10</sup> Ahmednagar, Akola, Amravati, Aurangabad, Bhandara, Beed, Buldhana, Chandrapur, Gadchiroli, Gondia, Hingoli, Jalgoan, Jalna, Kolhapur, Latur, Nagpur, Nanded, Nandurbar, Nashik, Osmanabad, Parbhani, Pune, Ratnagiri, Raigad, Sangli, Satara, Sindhudurg, Solapur, Thane, Wardha, Washim, Yavatmal

inefficient internal controls. Absence of a proper management information system and the increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriations and other irregularities.

### **1.9 Creation of database on finances of Panchayati Raj Institutions**

Twelfth Finance Commission (TFC) had accorded high priority for the creation of database on finances at the grass root. Accordingly, TFC had allocated an amount of Rs 28.30 crore for maintenance of database on finances of PRIs out of the first instalment of Rs 198.30 crore received in October 2005. As the amount could not be utilised for the said purpose within the stipulated time, the Government (March 2006) redistributed the same to all the PRIs for implementation of different schemes.

### **1.10 Audit arrangements**

#### **1.10.1 Audit by Chief Auditor, Local Fund Accounts**

1.10.1.1 The Audit of PRIs is conducted by the CALFA in accordance with provisions of the Bombay Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act. The CALFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

1.10.1.2 It was observed that local fund (transaction) audit of ZPs was in arrears for periods ranging from one to two years. The Consolidated Audit Review Report for the year 2005-06 prepared by the CALFA was presented to the State Legislature.

#### **1.10.2 Audit by Comptroller and Auditor General of India (C&AG)**

The C&AG of India in accordance with the recommendations of Eleventh Finance Commission (EFC) conducts audit of ZPs and PSs under Section 14 of the CAG's (DPC) Act, 1971 and under Section 142A of ZP Act, 1961. The audits of selected VPs under PS are also conducted during audit of the PS.

### **1.11 Non-adoption of new format of accounts prescribed by C & AG**

The EFC had recommended that the C&AG shall be responsible for exercising control and supervision over the proper maintenance of accounts of Local Bodies. Accordingly, C&AG had prescribed the formats for maintenance of accounts by PRIs in 2002. The State Government was required to amend the Maharashtra Zilla Parishads & Panchayat Samities (MZP&PS) Account Code for adoption of the accounts formats prescribed by C&AG. It was, however, observed that the State Government has not amended the MZP&PS Account Code as of March 2008 due to which maintenance of accounts in the prescribed formats were not done in any of the ZPs.



**1.12 Internal Control**

**1.12.1 Pending assessment of grants**

Funds were made available to PRIs through ways and means advances for implementation of schemes. The grants were released by the Government to the ZPs as the functions had been transferred to them. According to Government orders (May 2000), grants paid to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year. They were to inform the Rural Development Department about the amounts recoverable from/payable to the ZPs for adjustment while releasing ways and means advances for the succeeding years.

It was, however, observed that in respect of six departments of ZPs, there were arrears in assessment of grants as shown in **Appendix III**. In respect of the remaining six departments for which assessment was done by the respective administrative Directorates, the amounts recoverable from the ZPs and the expenditure requiring regularization after assessment were Rs 589.60 crore and Rs 149.13 crore respectively as shown below:

**(Rupees in crore)**

<b>Name of department</b>	<b>Period of assessment</b>	<b>Excess expenditure requiring regularization</b>	<b>Amount recoverable from ZP</b>
Education	1998-99 to 2006-07	57.08	485.96
Agriculture	1998-99 to 2006-07	26.04	58.87
Social Justice	1996-97 to 2006-07	0.07	6.43
Animal Husbandry	2002-03 to 2006-07	2.84	10.34
Public Health	2001-02 to 2006-07	59.87	11.02
Family Welfare	2002-03 to 2006-07	3.23	16.98
<b>Total</b>		<b>149.13</b>	<b>589.60</b>

Thus while assessment has not been done in six departments, an amount of Rs 738.73 crore is pending recovery/regularisation from ZPs in respect of the six departments where assessment had been completed upto 2006-07.

The Education Department stated (August 2007) that due to non-availability of staff, assessment were in arrears.

**1.12.2 Formation of District Level Audit Committees**

The Government directed (March 2001) the ZPs to constitute District Level Audit Committees (DLAC) for discussion and settlement of outstanding audit objections. As on 31st March 2007, the DLAC had been formed in 22 districts

and in the remaining 11<sup>11</sup> districts the DLAC is yet to be formed. The State Government stated (April 2008) that instructions had been issued to constitute DLAC in all the districts and to conduct quarterly meetings.

**1.12.3 Lack of response to Audit**

**1.12.3.1 Outstanding Paras from CALFA Report**

As per the report of CALFA for the year 2005-06, 90316 and 47609 paragraphs involving Rs 3037.59 crore and Rs 760.41 crore were pending for settlement in respect of Government funds and the ZPs own funds respectively for the period from 1962 to 2005 as detailed in **Appendix IV**.

• **Outstanding Inspection Reports and Paras of Pr. Accountant General**

Audit observations on financial irregularities and defects in initial accounts/records noticed during local audit by the Principal Accountant General/Accountant General but not settled on the spot were communicated to the heads of offices and departmental authorities through Inspection Reports. The more important and serious irregularities were reported to the Government. Statements indicating the number of observations outstanding for over six months were also sent to the Government for expediting their settlement.

For efficient implementation of the schemes transferred to the PRIs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ensure establishing accountability structure in PRIs.

At the end of March 2007, 3581 Inspection Reports containing 11926 paras of ZPs and PSs issued by Audit were pending settlement. The yearwise breakup of the outstanding reports and paras at the end of March 2007 were as follows :

Year	Inspection Reports			Paragraphs		
	Mumbai	Nagpur	Total	Mumbai	Nagpur	Total
Upto 2001-02	257	78	335	558	78	636
2002-03	58	142	200	152	145	297
2003-04	353	1066	1419	1056	3537	4593
2004-05	318	366	684	979	1075	2054
2005-06	256	246	502	850	1206	2056
2006-07	196	245	441	900	1390	2290
Total	1438	2143	3581	4495	7431	11926

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<sup>11</sup> Akola, Dhule, Gadchiroli, Gondhia, Nashik, Parbhani, Raigad, Sangli, Thane, Wardha and Yavatmal,

Huge arrears in outstanding Inspection Reports and paragraphs indicate weak internal control mechanism in PRIs.

### **1.13 Conclusion**

An overview of the functioning of PRIs in the State revealed that allocations out of the State budget to PRIs were much less than the 40 *per cent* recommended by Second MSFC. Maintenance of accounts in the formats prescribed by C&AG was not done in any of the ZPs due to non-amendment of the MZP&PS Account Code. Database on finances of PRIs were not maintained though funds were provided by TFC for the purpose. The ZPs were yet (May 2008) to finalise the accounts for 2006-07. Arrears in finalization of accounts and certification by CALFA ranged between two to five years. Instances of pending assessment of grants, non-formation of DLAC and outstanding audit paras indicate weak internal controls.

### **1.14 Recommendations**

- The State Government may consider to increase financial outlay to PRIs as recommended by the State Finance Commission.
- Steps be taken to prepare the accounts of ZPs/PSs/VPs on timely basis and certification thereof by CALFA.
- Creation and maintenance of database on finances of PRIs be expedited.
- The ZP/VP Act and Account Code be amended suitably for implementing the revised accounting formats.

The matter was referred to Government in September 2008, reply had not been received (January 2009).



