

CHAPTER-I

AN OVERVIEW OF ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

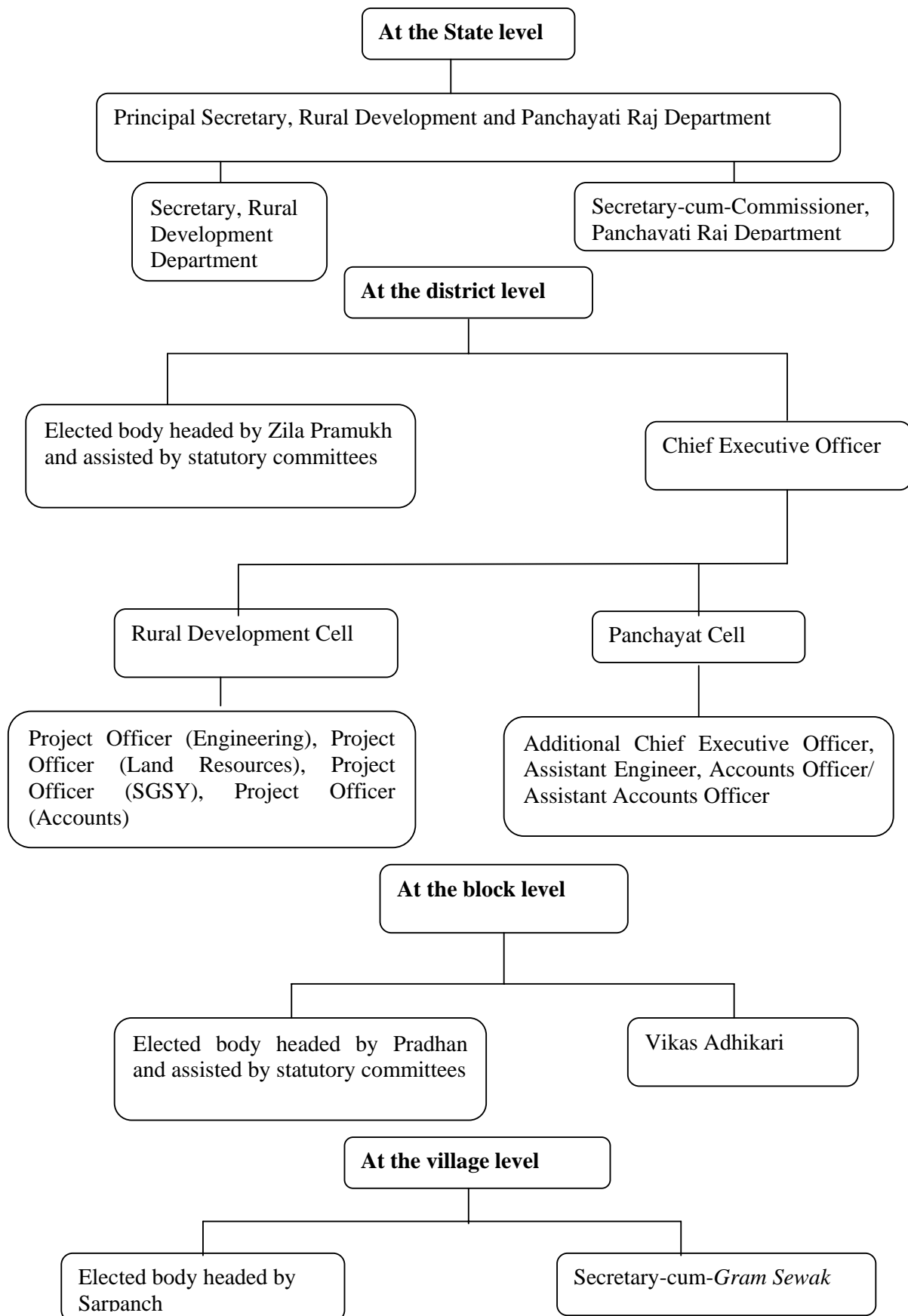
The Rajasthan Panchayat Act, 1953 was enacted keeping in view the philosophy enshrined in Article 40 of the Constitution of India, which lays down that the State shall take steps to organise village Panchayats and endow them with such powers and authority so as to enable them to function as units of self Government. Subsequently, with a view to bringing in conformity with the new pattern of Panchayati Raj, the Rajasthan Panchayat Samitis and Zila Parishads Act was enacted in 1959 which provided for a three tier¹ structure of local self governing bodies at district, block and village levels and further decentralised powers. As a consequence of the Seventy-third Constitutional Amendment, the Rajasthan Panchayati Raj Act, 1994 came into existence in April 1994, which apart from mandatory provisions delineated functions and powers of Panchayati Raj Institutions (PRIs). Later, Rajasthan Panchayati Raj Rules, 1996 (Rules) were incorporated thereunder in order to ensure the smooth functioning of PRIs.

There are 32 Zila Parishads (ZPs), 237 Panchayat Samitis (PSs) and 9,189 Gram Panchayats (GPs) in the State with a total population of 4.33 crore (76.6 *per cent* of the State's total population of 5.65 crore²).

1.2 Organisational set up

The overall administration of the Panchayati Raj Institutions vests with the Principal Secretary, Rural Development and Panchayati Raj Department. An organisational chart on the administration of PRIs is given below:

¹ Zila Parishad at District level, Panchayat Samiti at Block level and Gram Panchayat at Village level.
² As per Census, 2001.



1.3 Audit arrangements

Director, Local Fund Audit (DLFA) is the primary auditor of the accounts of the PRIs under the Act. Test-check of such accounts is also being conducted by the Comptroller and Auditor General of India (C&AG) under Section 14 of C&AG's (DPC) Act, 1971 as well as under section 75(4) of the Rajasthan Panchayati Raj Act, 1994.

1.4 Audit coverage

Test-check of accounts of 32 Zila Parishads and 237 Panchayat Samitis including 1838 Gram Panchayats for the period 2002-04 was conducted during 2004-05.

1.5 Financial management, devolution of funds and functions

1.5.1 Financial position of PRIs

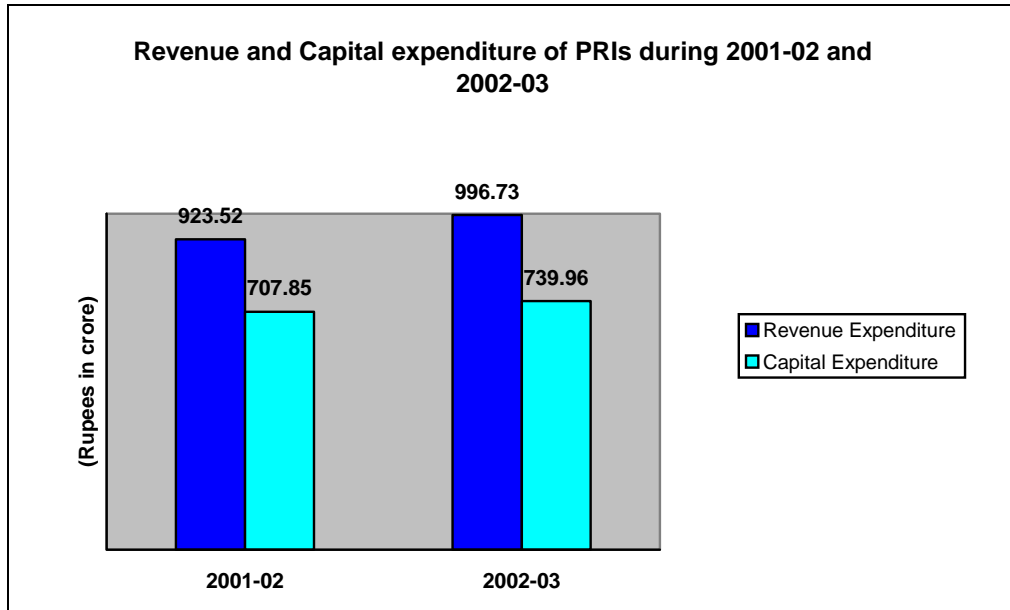
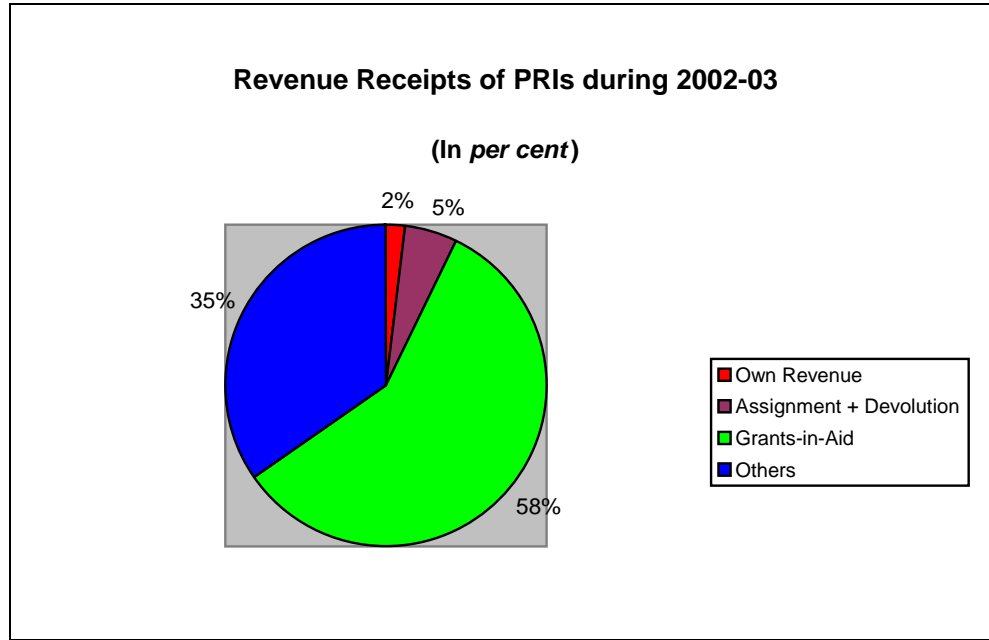
Apart from its own resources of tax and non-tax revenue e.g. fair tax, building tax, fees, rent on land and buildings, water reservoirs, etc. and capital receipts from sale of land, the PRIs receive funds from the State Government and Government of India (GOI) in the form of grants-in-aid/loans for general administration, implementation of developmental schemes/works and creation of infrastructure in rural areas, etc. Funds are also provided under recommendations of the State Finance Commission.

There was no mechanism with the Panchayati Raj Department for collection of data on the receipts and expenditure of the various tiers of PRIs at a centralised place where it would be compiled, processed and made available for analysis.

The position of receipts and expenditure of PRIs for all the three tiers for the period 2001-03 based on Twelfth Finance Commission data was as under:

Item	(Rupees in crore)	
	2001-02	2002-03
(A) Revenue		
Own Tax	4.79	4.84
Own Non-Tax	32.35	32.84
Own Revenue	37.14	37.68
Assignment + Devolution	92.51	93.87
Grants-in-Aid	1079.62	1052.66
Others	597.54	627.42
Total Other Revenue	1769.67	1773.95
Total Revenue	1806.81	1811.63

(Rupees in crore)		
Item	2001-02	2002-03
(B) Expenditure		
Revenue Expenditure	923.52	996.73
Capital Expenditure	707.85	739.96
Total Expenditure	1631.37	1736.69



The above table indicates that 'Own Revenue' of the PRIs constituted only two *per cent* of their total receipts. Thus, they were largely dependent on government funds. Further, revenue expenditure of PRIs accounted for 57 *per cent* of the total expenditure indicating that capital works/activities of a developmental nature received a lower priority.

1.5.2 Devolution of funds

(i) Allocation of grants to PRIs as a percentage of the annual budget of the State Government increased from 2.99 *per cent* during 2002-03 to 4.32 *per cent* in 2004-05 as shown below:

Year	Total budget provision (Revenue and capital) of the State	Allocation to PRIs	Percentage
	(Rupees in crore)		
2002-03	22564	675	2.99
2003-04	26242	691	2.63
2004-05	25926	1120	4.32

(ii) The position of grants to be released *vis-a-vis* actually released to the PRIs under recommendations of Eleventh Finance Commission (EFC) and the Second State Finance Commission (SFC) during 2002-05 was as under:

Year	Grants under EFC			Grants under SFC		
	To be released	Actually released	Short(-)/ Excess(+) released	Allocated	Actually credited in the PD accounts of PRIs	Short(-)/ Excess(+) credited
2002-03	98.18	49.09	(-)49.09	93.87	91.80	(-)2.07
2003-04	98.18	Nil	(-)98.18	93.87	90.79	(-)3.08
2004-05	98.19	245.18	(+)146.99	130.39	135.54	(+)5.15
Total	294.55	294.27	(-) 0.28	318.13	318.13	Nil

The short release of EFC grant amounting Rs 147.27 crore during 2002-04 was due to non-receipt of funds from GOI. The SFC grant of Rs 2.07 crore and Rs 3.08 crore was released by the State Government at the fag end of 2002-03 and 2003-04 respectively which could not be credited in the Personal Deposit (PD) Accounts of PRIs by Treasury Officers of three districts (Jaisalmer, Jhunjhunu and Jodhpur) during the respective years. The same had, however, been reallocated and credited in the next financial years i.e. 2003-04 and 2004-05.

1.5.3 Non-release/short release of funds

(i) During 2001-02, the State Government had released Rs 92.51 crore to Zila Parishads against Rs 93.87 crore recommended by Second State Finance Commission, resulting in short release of Rs 1.36 crore. Similarly, State Government released Rs 6.81 crore against Rs 9.52 crore as grants-in-aid in lieu of octroi to Gram Panchayats during 2002-04, resulting in short release of Rs 2.71 crore (2002-03: Rs 1.36 crore and 2003-04: Rs 1.35 crore). This deprived the rural population of developmental works and benefits of civic services to that extent.

(ii) Zila Parishads, Sikar and Udaipur did not release grants of Rs 21.69 lakh meant for Panchayat Samitis (Rs 0.48 lakh)³ and Gram Panchayats (Rs 21.21 lakh)⁴ during 2000-04 thereby denying the Panchayat Samitis and Gram Panchayats of their due shares in the grants mainly intended for creation of rural infrastructure and civic amenities.

1.5.4 Delayed release of funds

Cases of delayed release of funds were noticed as under:

(i) Out of Rs 25.90 crore provided by GOI under the National Family Benefit Scheme during July 2002 to October 2003, the State Government released Rs 18.74 crore to Zila Parishads with delay ranging from one to seven months. This led to delays in providing monetary relief to bereaved widows/other dependents belonging to BPL families.

(ii) While in respect of Swarnajayanti Gram Swarojgar Yojana (SGSY), the State Government was required to release its matching share to ZPs immediately after the release of central share by Government of India, in respect of Sampurna Gram* Rojgar Yojana (SGRY), the state share was to be released within 15 days. However, during 2003-04, the State's share was released with delays ranging from 7 to 194 days in seven test-checked Zila Parishads as under:

Sl. No.	Zila Parishad	SGSY			SGRY		
		No. of cases	Period of delay	Amount of State share (Rs in lakh)	No. of cases	Period of delay	Amount of State share (Rs in lakh)
1.	Alwar	-	-	-	3	13 to 35 days	53.61
2.	Bharatpur	1	7 days	15.45	1	44 days	23.16
3.	Chittorgarh	3	7 to 29 days	43.31	1	24 days	25.48
4.	Dausa	2	13 to 194 days	15.95	2	9 to 22 days	42.46
5.	Jaipur	2	13 to 24 days	44.63	4	10 to 45 days	80.09
6.	Jaisalmer	2	13 to 24 days	6.95	1	44 days	29.63
7.	Pali	1	33 days	17.16	6	27 to 51 days	79.26
Total		11		143.45	18		333.69

³ Udaipur: Rs 0.48 lakh.

⁴ Sikar: Rs 6.86 lakh and Udaipur: Rs 14.35 lakh.

* Refer to Statement of updated figures/details at page-97.

1.5.5 Non-distribution of due share of EFC and SFC grants to Gram Panchayats

It was observed that grants-in-aid of Rs 1.34 crore (Rs 85.94 lakh under Eleventh Finance Commission (EFC) and Rs 48.16 lakh under Second State Finance Commission (SFC) provided to Panchayat Samiti, Srimadhapur (District Sikar) during 2002-04 was distributed to 34 Gram Panchayats on the basis of cost of works sanctioned, instead of in proportion to their population⁵. Consequently, Rs 4.75 lakh under EFC and Rs 2.85 lakh under Second SFC were given in excess of their due shares to 13 GPs and 22 GPs respectively violating the instructions.

While confirming the facts, Government stated (March 2006) that appropriate action would be initiated against the officials responsible for the irregularity.

1.5.6 Devolution of functions

State Government decided (June 2003) to devolve all 29 functions listed in the Eleventh schedule of the Constitution to the PRIs. However, funds and functionaries of only 18 functions had been transferred as of February 2006 (*Appendix-I*).

1.6 Irregularities in maintenance of accounts

Although the State Government had accepted (August 2003) the formats of annual accounts prescribed by the Comptroller and Auditor General of India, annual accounts for the years 2003-04 and 2004-05 were maintained by the PRIs in conventional formats. Further, database on the finances of PRIs on the basis of formats suggested by C&AG as recommended by the Eleventh Finance Commission and for which separate funds were earmarked was yet to be developed (February 2006).

Following irregularities were noticed in the maintenance of accounts.

1.6.1 Delayed submission of annual accounts

Annual accounts of ZPs were required to be sent to the State Government by 15 May of the following year. However, accounts for 2003-04 were sent (June-December 2004) by 17 ZPs after delays of one to seven months and those of ZP, Barmer had not been received in the Panchayati Raj Department as of February 2006.

⁵ Based on Census, 1991 as per guidelines issued by Panchayati Raj Department of State Government under EFC and Second SFC in March 2002 and June 2002 respectively.

1.6.2 Non-reconciliation of differences between cash books and Personal Deposit/Bank pass books

In Zila Parishad, Kota and nine Panchayat Samitis, there was a difference of Rs 1.23 crore (**Appendix-II**) between the cash book balances and PD/bank accounts pass books for want of reconciliation with treasuries/banks. This was fraught with the risks of misappropriation/embezzlement of funds.

On being pointed out, Government while accepting the facts stated (March 2006) that action for reconciliation/rectification of the differences is being taken by the concerned ZP/PSs.

1.6.3 Non-crediting of interest in the scheme funds

Interest of Rs 2.12 crore earned during 2001-04 on the funds of various Central⁶/State⁷ sponsored schemes and other programmes⁸/activities in 10 ZPs and 15 PSs was irregularly credited as their 'Own/Miscellaneous Income' instead of crediting the same to the concerned scheme fund. This deprived the rural population of the benefits of development works/activities which would have accrued out of these additional funds.

On being pointed out, 9 ZPs and 9 PSs while accepting the facts attributed treating of interest as their 'Own Income' to the fact that scheme-wise accounts were not being maintained and stated that action would be taken for rectification of the accounting error. No reply was furnished by ZP, Dungarpur and six PSs (March 2006).

1.7 Budgetary and internal controls

1.7.1 Excess expenditure over the allotted funds

(i) Three Zila Parishads (Dholpur, Kota and Rajsamand) and 27 Panchayat Samitis incurred excess expenditure of Rs 13.31 crore irregularly over the funds authorised during the years 1998-2004 under various schemes. This reflects weak internal controls and financial indiscipline in the PRIs.

On being pointed out, all the three Zila Parishads and 19 Panchayat Samitis while accepting facts, stated (May 2004-March 2006) that the excess expenditure related to the period 1998-2004 and action for its reimbursement from the concerned departments was being taken. No reply was furnished by eight Panchayat Samitis (March 2006).

⁶ Sampoorna Gramin Rojgar Yojana, Member of Parliament Local Area Development Scheme, Integrated Child Development Scheme, Eleventh Finance Commission etc.

⁷ State Finance Commission, Janata Awas Yojana, Member of Legislative Assembly Local Area Development Scheme etc.

⁸ Famine Relief, Industries Establishment, Labour Employment etc.

(ii) Five Zila Parishads (Jhalawar, Jodhpur, Sikar, Tonk and Udaipur) irregularly diverted Rs 36.34 lakh during 2003-04 from funds meant for implementation of schemes to the repairs and maintenance of vehicles, office contingencies, etc.

1.7.2 Irregular investment of scheme funds in fixed deposit receipts

Zila Parishad, Jodhpur in contravention of the provisions of the Centrally sponsored schemes invested (December 1995 and April 1996) unutilised funds of Rs 1.16 crore pertaining to 23 schemes/activities in five Fixed Deposit Receipts (FDRs) with banks. On maturity, funds aggregating to Rs 1.77 crore were reinvested (December 2000 and May 2001) in eight FDRs. Investment of scheme funds in FDRs without the approval of the government, besides being irregular, implied that these funds could not be utilised for the development works/activities for which these were provided.

1.7.3 Non-utilisation/non-refund of unspent funds of closed schemes

(i) In four Zila Parishads⁹ and 12 Panchayat Samitis¹⁰ unspent funds relating to various closed schemes, aggregating to Rs 5.61 crore (ZPs: Rs 2.28 crore and PSs: Rs 3.33 crore) were lying for one to 15 years as of March 2005. These were neither utilised in accordance with guidelines of the schemes nor refunded to the Departments concerned.

On being pointed out (May-December 2004), three Zila Parishads¹¹ and seven Panchayat Samitis¹², while accepting the facts stated (May-December 2004) that the unspent funds would be refunded after obtaining guidance from the Panchayati Raj Department. The reply was, however, not tenable as the government had clearly reiterated its instructions (October 1997 and March 2004) in this regard. No reply was furnished by Zila Parishad, Barmer and five Panchayat Samitis.

(ii) Similarly, funds of Rs 25.79 crore relating to various closed schemes were lying unutilised in nine other Zila Parishads (Rs 6.58 crore) and 46 Panchayat Samitis (Rs 19.21 crore) for 1 to 22 years as of March 2005.

Such unutilised funds from various schemes indicated that the beneficiaries of the schemes were deprived of the intended benefits, besides lack of proper monitoring for effective utilisation of funds.

1.7.4 Advances lying unadjusted/unrecovered

In three Zila Parishads and 28 Panchayat Samitis, advances of Rs 88.91 lakh were outstanding against 867 individuals (Rs 15.24 lakh against 71 elected representatives and Rs 73.67 lakh against 796 employees) for the last one to

⁹ Banswara, Barmer, Dausa and Udaipur.

¹⁰ Atru (Baran), Chhabra (Baran), Dhariawad (Udaipur), Girwa (Udaipur), Jhunjhunu, Kishanganj (Baran), Newai (Tonk), Pali, Shahbad (Baran), Suwana (Bhilwara), Talera (Bundi) and Todaraisingh (Tonk).

¹¹ Banswara, Dausa and Udaipur.

¹² Chhabra, Dhariawad, Girwa, Newai, Pali, Suwana and Talera.

44 years as of March 2006. This indicated lack of effective and efficient internal control mechanism in these PRIs. Further, the possibility of recovery of advances outstanding for a very long period was extremely remote.

While accepting the facts, Panchayat Samiti, Pindwara stated (December 2004) that difficulties were being experienced in effecting recoveries as the advances were very old and whereabouts of the defaulters were not available. While the Zila Parishads and 21 Panchayat Samitis intimated (July 2004-March 2006) that action for recovery of the outstanding advances was being taken, the six remaining Panchayat Samitis¹³ did not furnish replies.

1.7.5 Outstanding Utilisation Certificates

(i) As of February 2006, Utilisation Certificates (UCs) of Rs 101.03 crore for the period up to March 2004 were pending against PRIs in respect of the following three major schemes of Panchayati Raj Department:

(Rupees in crore)

S. No.	Name of scheme	Amount of UCs pending
1.	Mid Day Meals Scheme	64.81
2.	National Family Benefit Scheme	6.22
3.	Rashtriya Sam Vikas Yojana	30.00
Total		101.03

(ii) In respect of other schemes implemented through Zila Parishads (Rural Development Cell), UCs of Rs 638.64 crore for the period up to March 2005 were pending against different executing agencies, out of which UCs of Rs 136.71 crore (21 per cent) were more than one year old as under:

(Rupees in crore)

Executing agencies from whom pending	Period of UCs		
	Up to March 2004	2004-05	Total (up to March 2005)
PRIs	45.15	322.11	367.26
Line Departments	39.49	107.71	147.20
Others	52.07	72.11	124.18
Total	136.71	501.93	638.64

(Scheme wise break-up of pending UCs was not available with the Rural Development Department.)

Due to non-furnishing of UCs, utilisation of grants for the purpose intended could not be ascertained.

1.7.6 Arrears of audit and audit fees

Accounts of 10 ZPs (31 per cent), 60 PSs (25 per cent) and 5450 GPs (59 per cent) for the period up to 2003-04 remained unaudited by DLFA as of March 2005 reportedly due to the staff remaining engaged in special audits and election duties. Further, audit fees of Rs 4.67 crore for the period 1998-2004 was yet to be paid to DLFAD by 16 ZPs (Rs 0.02 crore), 124 PSs (Rs 0.33 crore) and GPs (Rs 4.32 crore) as of August 2005.

¹³ Basedi, Bonli, Gangapurcity, Khandar, Shivganj and Sikrai.

1.8 Lack of response to Audit observations

For early settlement of audit observations, Departmental Administrative Officers were required to take prompt steps to address the defects and irregularities brought to their notice by Audit.

1.8.1 It was observed that of the Inspection Reports (IRs) issued by DLFAD upto March 2004, 1724 paragraphs of Zila Parishads, 47,826 paragraphs of Panchayat Samitis and 17,58,241 paragraphs of Gram Panchayats were pending for settlement at the end of June 2005. Besides, 8285 cases of embezzlements involving Rs 14.94 crore¹⁴ were also pending as of November 2005.

1.8.2 Further, 1136 IRs of Zila Parishads (Rural Development Cell and Panchayat Cell) and Panchayat Samitis containing 11,267 paragraphs issued by Principal Accountant General up to the period 2004-05 were pending settlement at the end of December 2005 as under:

Year	Inspection Reports	Paragraphs
Upto 1998-1999	167	361
1999-2000	35	210
2000-01	69	209
2001-02	149	954
2002-03	189	1742
2003-04	230	2643
2004-05	297	5148
Total	1136	11267

This indicates lack of prompt response on the part of the PRIs/departmental authorities towards audit observations which has not only resulted in recurrence of the deficiencies and lapses pointed out earlier, but has also eroded the accountability of the PRIs/departmental officers.

1.9 Impact of Audit

During 2004-05, the following actions were taken by the PRIs at the instance of Audit:

- Excess payments, dues etc. aggregating to Rs 1.72 crore were recovered in 322 cases;
- Centrally sponsored scheme funds of Rs 1.62 crore parked irregularly in PD accounts in three cases were transferred to Savings Bank accounts of the concerned schemes;

¹⁴ ZPs (5 cases: Rs 0.86 crore), PSs (651 cases: Rs 8.93 crore) and GPs (7629 cases: Rs 5.15 crore).

- Rs 1.10 crore diverted from one scheme to another in six cases were credited to the concerned schemes;
- Unutilised funds of Rs 1.56 crore in 17 cases were surrendered to government/funding agencies; and
- In five cases involving Rs 0.12 crore remedial action such as amendment in rules/orders, disciplinary action against erring official, etc. was taken.

1.10 Conclusion

The PRIs were largely dependent on Government funds because of an extremely low 'Own Revenue' base. In such a context, cases of short release of funds/delays in transfer of funds to PRIs have a significant impact on the overall position of availability of resources.

Inadequate budgetary and internal control mechanisms in PRIs resulted in expenditure in excess of the allotted funds, piling up of differences in balances as per cash book and bank, non-adjustment/recovery of outstanding advances against individuals for a long period and non-refund of unspent balances of closed/inactive schemes.

Annual accounts of PRIs were still being maintained in the conventional formats and they had not yet adopted the formats prescribed by the Comptroller and Auditor General of India.

The database on finances of PRIs in the formats suggested by C&AG was also yet to be developed. The department was unable to provide information regarding total receipts and expenditure of PRIs and scheme-wise pendency of UCs due to the absence of a nodal agency to monitor/compile such information at the State level.

The huge pendency of audit observations and delays in their settlement is fraught with the risk of continuance of the deficiencies observed during audit.

1.11 Recommendations

- ▶ Bottlenecks in devolution of funds to PRIs should be minimised and PRIs should be encouraged to mobilise their own resources so as to minimise dependency on governmental assistance.
- ▶ A nodal agency at State level should be earmarked for monitoring the receipt and expenditure of funds and receipt of utilisation certificates in respect of various schemes being implemented by implementing agencies.

- ▶ PRIs should ensure that budgetary controls are in place. Internal control mechanism needs strengthening to ensure prompt recovery and adjustment of the advances, effective and efficient utilisation of scheme funds and timely refund of the unspent balances of closed schemes.
- ▶ PRIs should evolve a time bound programme to recover outstanding advances and funds embezzled/overpaid from the concerned persons.
- ▶ Accounts of PRIs should be prepared in the formats as prescribed by C & AG and effective checks should be exercised in PRIs to prevent excess expenditure over the allotted funds and to ensure monthly reconciliation of PD/ bank accounts and timely crediting of interest amount to the concerned schemes.
- ▶ Database on finances of PRIs should be developed and maintained at all levels of PRIs to facilitate proper monitoring and evaluation of schemes and should be made easily accessible by computerization as recommended by the Eleventh Finance Commission.
- ▶ The Government should also issue suitable instructions to all tiers of the PRIs /departments to ensure prompt response to the audit observations.