

# 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 Samiti and Zila Parishad Act was enacted in 1959 which provided for a three tier<sup>1</sup> structure of local self governing bodies at district, block and village levels and further decentralized powers. As a consequence of the 73<sup>rd</sup> Constitutional Amendment, the Rajasthan Panchayati Raj Act, 1994 (Act) came into force in April 1994, which apart from mandatory provisions delineated functions and powers of Panchayati Raj Institutions (PRIs). Later, Rajasthan Panchayati Raj Rules, 1996 were incorporated to ensure the smooth functioning of PRIs.

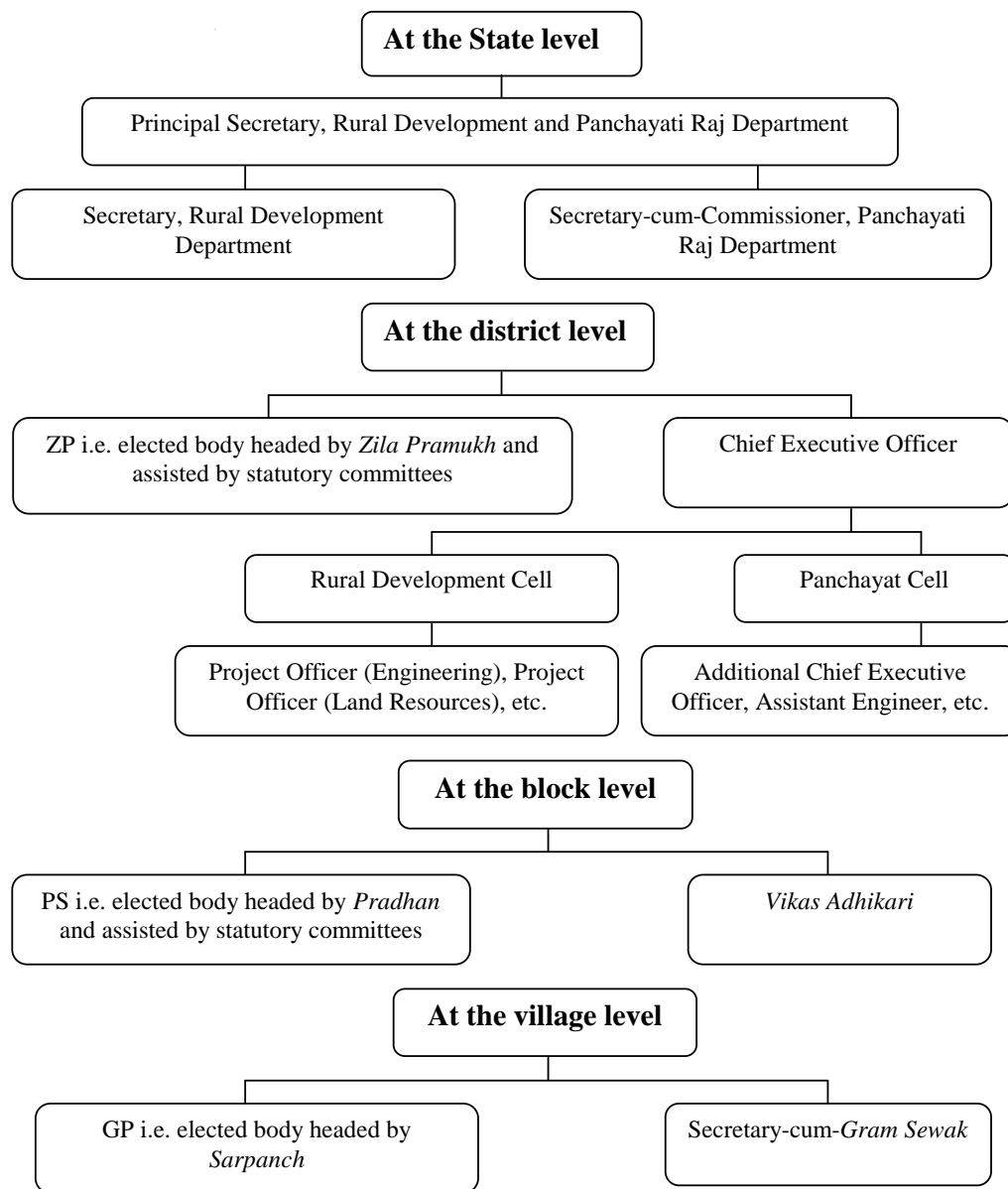
There are 32 *Zila Parishads* (ZPs) with two cells in each ZP i.e. Rural Development Cell (RDC) and Panchayat Cell (PC), 237 *Panchayat Samitis* (PSs) and 9,189 *Gram Panchayats* (GPs) in the State with a total population of 4.33 crore (76.60 per cent of the State's total population of 5.65 crore<sup>2</sup>).

### 1.2 Organisational set up

The overall administration of the PRIs vests with the Principal Secretary, Rural Development and Panchayati Raj Department.

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1. *Zila Parishad* at District level, *Panchayat Samiti* at Block level and *Gram Panchayat* at Village level.
  2. As per Census, 2001.
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The organisational structure of PRIs is given below:



### 1.3 Accounting arrangements

Although the State Government had accepted (August 2003) the formats of accounts prescribed by the Comptroller and Auditor General of India (C&AG), annual accounts for the year 2005-06 were maintained by the PRIs in conventional formats. Further, database on the finances of PRIs to be maintained in the formats suggested by C&AG as recommended by Eleventh Finance Commission (EFC) was not yet implemented inspite of provision of earmarked funds. Meanwhile in view of significant increase in the responsibilities related to PRIs after the seventy third amendment in the

Constitution and multifold increase in the quantum of funds flowing towards PRIs, the Rural Development and Panchayati Raj Department (RD&PRD) has taken up a project, called Computerisation Automation Refinement of Integrated System of Management and Accounts (CARISMA) for computerising and interconnecting the PRIs. The project includes software pertaining to Accounting, Management Information System, statutory duties (birth and death registration) and village database. The project is intended to cover all the 32 ZPs, 237 PSs and 1,100 out of 9,189 GPs at the initial stage. The project is scheduled to be completed by February 2011. The Panchayati Raj Department (PRD) intimated (August 2009) that Panchayati Raj Headquarters, 32 ZPs, 237 PSs and 1,114 GPs have been inter connected as on 31 March 2009 at a cost of Rs 44.94 crore.

#### **1.4 Audit arrangements**

The Director, Local Fund Audit Department (DLFAD) is the primary auditor of accounts of the PRIs under the Act. Test check of such accounts is also being conducted by the C&AG under Section 14 of C&AG's (DPC) Act, 1971 and under the enabling provisions contained in Section 75 (4) of the Act.

#### **1.5 Audit coverage**

Test check of accounts of 29 ZPs (PC), 27 ZPs (RDC), 211 PSs and 2,025 GPs for the period up to 2004-05 was conducted during 2005-06.

#### **1.6 Financial management, devolution of funds and functions**

##### ***1.6.1 Financial position of PRIs***

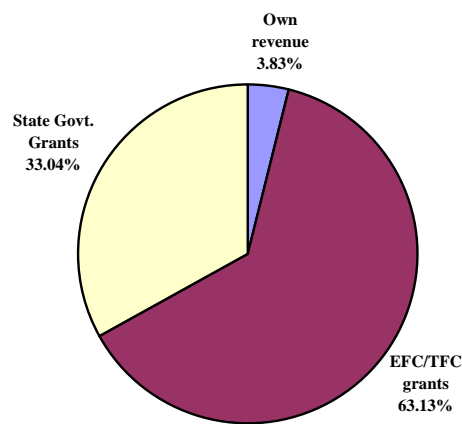
##### ***1.6.1.1 Panchayati Raj Department***

Apart from own resources of tax and non-tax revenue e.g. fair tax, building tax, fees, rent from 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 Central/State Finance Commissions.

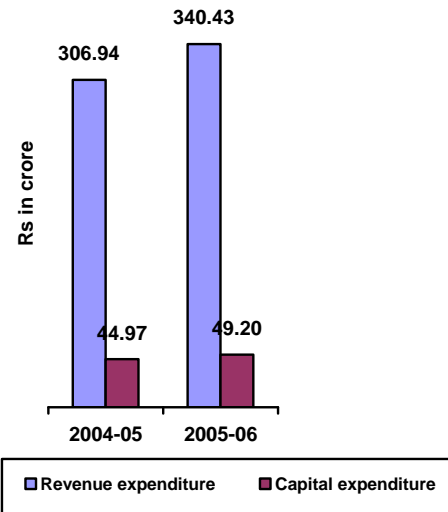
There was no mechanism with the PRD for centralised collection of data on the receipts and expenditure of the various tiers of PRIs for further compilation and processing. However, the position of receipts and expenditure of PRIs for the period 2004-05 and 2005-06 as furnished by PRD (June 2009) was as under:

(Rupees in crore)

Particulars	2004-05	2005-06
<b>(A) Revenue receipt</b>		
Own Tax	1.68	2.59
Own Non-Tax	13.51	12.33
<b>Own Revenue</b>	<b>15.19</b>	<b>14.92</b>
Grants-in-Aid from State Government	111.83	128.72
EFC/TFC grants	224.89	245.99
<b>Total Receipts</b>	<b>351.91</b>	<b>389.63</b>
<b>(B) Expenditure</b>		
Revenue expenditure (Pay and allowance and maintenance expenditure)	306.94	340.43
Capital expenditure	44.97	49.20
<b>Total Expenditure</b>	<b>351.91</b>	<b>389.63</b>



PRI Receipts 2005-06



PRI Expenditure

The above position indicates that:

(i) 'Own Revenue' of the PRD in 2005-06 constituted only 3.83 per cent of their total receipts. Thus, they were largely dependent on Government funds.

(ii) While grants-in-aid from State Government and EFC/TFC grants had increased by 11.28 per cent from Rs 336.72 for the year 2004-05 to Rs 374.71 crore in the year 2005-06, the own revenue of PRD came down marginally by 1.78 per cent from Rs 15.19 crore in 2004-05 to Rs 14.92 crore in 2005-06.

### 1.6.1.2 Rural Development Department

The position of receipts and expenditure of Rural Development Department (RDD) for the period 2004-05 and 2005-06 has furnished by RDD (October 2009) was as under:

(Rupees in crore)

Particulars	2004-05						2005-06					
	Opening Balance	Receipts	Total Available Fund	Expenditure	Percentage of expenditure	Closing Balance	Opening Balance	Receipts	Total Available Fund	Expenditure	Percentage of expenditure	Closing Balance
Central Sponsored Schemes	295.96	648.52	944.48	661.75	70.07	282.73	346.81	805.67	1,152.48	843.85	73.22	308.63
State Sponsored Schemes	130.26	125.22	255.48	113.50	44.43	141.98	181.86	173.35	355.21	172.70	48.62	182.51
<b>Total</b>	<b>426.22</b>	<b>773.74</b>	<b>1,199.96</b>	<b>775.25</b>	<b>64.61</b>	<b>424.71</b>	<b>528.67</b>	<b>979.02</b>	<b>1,507.69</b>	<b>1,016.55</b>	<b>67.42</b>	<b>491.14</b>

The above table reveals that :

(i) There was difference of Rs 103.96 crore between the closing balance of 2004-05 and the opening balance of 2005-06. RDD attributed (January 2010) the difference to non-inclusion of release made by the Central and State Governments at the end of 2004-05 and interest accrued for 2004-05 but credited at the beginning of next financial year. The procedure adopted by the State Government was not appropriate as the receipts should have been credited under the Receipt Head of the relevant year instead of increasing the opening balance with reference to closing balance of preceding year.

(ii) Under SSS, expenditure during 2004-05 and 2005-06 was less than the opening balances, which indicates that State Government transferred funds to RDD without assessing the requirements.

(iii) During 2004-05 and 2005-06 the PRIs could utilise only 64.61 and 67.42 per cent of the total available funds under CSS and SSS.

### 1.6.2 Devolution of funds

Financial assistance to PRIs as a percentage of the total expenditure (revenue and capital) of the State Government increased from 4.75 per cent during 2004-05 to 5.25 per cent in 2005-06 as shown below:

(Rupees in crore)

Year	Total expenditure (Revenue and Capital) of the State	Financial assistance to PRIs	Percentage
2004-05	23,394.48	1,110.46	4.75
2005-06	25,793.69	1353.73	5.25

### 1.6.3 Short release of funds

State Government released Rs 3 crore against Rs 4.76 crore towards grants-in-aid in lieu of octroi to GPs during 2004-05 resulting in short release of Rs 1.76 crore. Reason for short release was attributed by RD&PRD to less provision of funds by Finance Department of the State Government.

#### 1.6.4 Deduction of central assistance

While own revenue of PRIs constituted only 4.32 and 3.83 *per cent* of the total receipts during 2004-05 and 2005-06 respectively, any deduction in Central/State grants due to under-utilisation of funds by PRIs further worsens their financial condition thereby affecting the activities of developmental works and civic amenities for rural people.

As per guidelines of *Swarnjayanti Gram Swarozgar Yojana* (SGSY), a Centrally Sponsored Scheme launched by GOI with the objective of creation of assets for *swarozgaries* below poverty line (BPL), proportionate deduction in Central share during current year would be made if opening balance of the scheme funds exceeds 15 *per cent* of the funds allocated during the previous year.

During test check of records of RDD, Jaipur, it was observed that due to under-utilisation of SGSY funds by 13 ZPs and 17 ZPs during 2003-04 and 2004-05 respectively, opening balances had exceeded the prescribed limit of 15 *per cent*. Consequently, GOI deducted Rs 4.81 crore from the Central share released to ZPs during 2004-05 and 2005-06. This deprived the rural BPL beneficiaries of the benefits envisaged under the scheme.

On being pointed out (October 2006), the department while accepting the facts stated (November 2006) that due to non-submission of utilisation certificates, the opening balances exceeded the permissible limit.

This, however, indicated lack of effective monitoring in implementation of the scheme by ZPs, which led to deduction in Central assistance depriving the rural poor of the envisaged benefits.

#### 1.6.5 Finance Commission Grants

The position of grants to be released vis-à-vis actually released to the PRIs by State Government under recommendations of the Twelfth Finance Commission (TFC) during 2005-06 was as under:

(Rupees in crore)

Year	Grants to be released	Grants actually released	Short (-)/Excess (+) released
2005-06	246.00	245.99	(-) 0.01

As per guidelines issued by GOI, grants of TFC were required to be transferred by State Government to the PRIs within 15 days of the same being credited to the State Government's account failing which State Government was liable to transfer interest amount at RBI Bank rate.

The first and second installments of TFC grants for the year 2005-06, which were credited to the State Government's account on 16 November 2005 and 23 March 2006 respectively, were transferred to ZPs and PSs within the prescribed period. However, grants of GPs were not directly released to them

by State Government, but were first transferred to the jurisdictional PSs. Test check of 50 PSs revealed that they could release the grants (Rs 32.66 crore) to the concerned GPs in first installment between 9 December 2005 and 30 January 2006 and second installment between 12 April 2006 and 22 August 2006. Thus, TFC grants to these GPs were provided with delays ranging from seven to 138 days

The matter was brought to the notice of PRD in December 2007, but no reply has been received (July 2009).

### **1.6.6 Devolution of functions**

State Government decided (June 2003) to devolve all 29 subjects listed in the Eleventh Schedule of the Constitution to the PRIs. However, funds, functions and functionaries of only 18 subjects were transferred as of March 2007. Eleven functions not yet transferred to PRIs includes important areas like Public health, Animal husbandry, Small scale industries, *Khadi* village and cottage industries, Rural electrification, Technical and vocational education and Family welfare etc.

## **1.7 Maintenance of accounts**

### **1.7.1 Delayed submission of annual accounts**

Annual accounts of ZPs are required to be sent to the State Government by 15 May of the following year. It was, however, observed that annual accounts for 2004-05 were sent (June 2005-March 2006) by 23 ZPs with delays ranging from 25 to 314 days.

### **1.7.2 Non-reconciliation of differences between Cash Books and Personal Deposit/Bank pass books**

In *Panchayat Samiti*, Deeg there was a difference (as on 31 March 2005) of Rs 32.01 lakh between the cash book balance (Rs 67.62 lakh) and PD/Bank Account pass book (Rs 99.63 lakh) for want of reconciliation with treasuries/banks. The PS has not yet (March 2009) reconciled the difference. Non-reconciliation of balance is fraught with the risk of misappropriation/embezzlement of funds.

## **1.8 Budgetary and internal controls**

The performance of the PRIs in relation to their functions was not effective due to weak internal control mechanism as detailed in the succeeding paragraphs.

### **1.8.1 Excess expenditure over the allotted funds**

Eight ZPs and four PSs incurred excess expenditure over the funds authorised/received due to which there were minus balances of funds of Rs 5.17 crore under various heads of accounts/schemes as on 31 March 2005 (*Appendix-I*). This reflects weak internal control and financial indiscipline in PRIs.

Five ZPs and two PSs while accepting the facts stated (April 2005 to February 2006) that action was being taken for obtaining reimbursement of funds from the concerned departments. No reply was furnished by remaining three ZPs and two PSs.

### **1.8.2 Non-refund of balances lying unutilised under closed/inactive schemes**

**1.8.2.1** Rural Development Department instructed (November 1997 and March 2004) the ZPs to transfer the unspent amounts of closed schemes to the scheme; in which the closed schemes had been amalgamated or to refund the same to the respective departments.

Test check of records of PSs, Asind, Raipur and Neemrana for the year 2004-05 revealed that unspent funds aggregating to Rs 17.24 lakh (PSs, Asind: Rs 4.37 lakh, Raipur: Rs 7.34 lakh and Neemrana Rs 5.53 lakh) were lying in their PD accounts pertaining to various closed/inactive schemes where no transaction has taken place during last two to eight years (as of March 2005). These were neither refunded to Government nor the balance transferred to the amalgamated scheme (*Appendix-II*).

On being pointed out PSs, Raipur and Neemrana stated (May 2005 and July 2005) that action was being taken to refund the funds. No reply was furnished by PS, Asind.

**1.8.2.2** Similarly, in two ZPs unspent funds relating to various closed schemes aggregating Rs 6.69 crore (Jaipur: Rs 5.63 crore and Nagaur: Rs 1.06 crore) were lying blocked in their PD Accounts for two to 16 years as of March 2005. These were neither utilised in accordance with the guidelines of the schemes nor refunded to the department concerned (*Appendix-II*).

ZP, Jaipur while accepting the facts stated (November 2005) that action to refund the balance amount to PRD/other departments was being taken. No reply was furnished by ZP, Nagaur.

### **1.8.3 Advances lying unadjusted/ unrecovered**

In five ZPs and five PSs, advances aggregating Rs 13.54 lakh for purchase of petrol, diesel, transfer travelling advance, to attend *Mahila sammelan* and food grains etc. disbursed up to March 2005 were outstanding against 89 officials for the last one to 46 years as of March 2009 (*Appendix-III*). This indicated lack of effective and efficient control mechanism in these PRIs.



On being pointed out, five ZPs and three PSs while accepting the facts stated (May 2005 to December 2005) that action for adjustment/recovery of outstanding advances was being taken. Remaining two PSs did not furnish replies.

#### 1.8.4 Outstanding utilisation certificates

1.8.4.1 Utilisation certificates (UCs) of Rs 226.23 crore for the period up to March 2005 were pending against PRIs as of February 2007 in respect of the following two major schemes of Panchayati Raj Department:

(Rupees in crore)

S. No.	Name of scheme	Amount of UCs pending
1.	Mid Day Meal Scheme	222.04
2.	National Family Benefit Scheme	4.19
	<b>Total</b>	<b>226.23</b>

1.8.4.2 As regards other schemes implemented through *Zila Parishads* (Rural Development Cell), UCs of Rs 830.58 crore for the period up to March 2006 were pending as of December 2006 against different executing agencies out of which UCs for Rs 174.21 crore (21 per cent) were more than one year old as detailed under:

(Rupees in crore)

Executing agencies from whom pending	Period of UCs		
	Up to March 2005	2005-06	Total (up to March 2006)
PRIs	66.84	453.89	520.73
Line departments (PWD, PHED, Irrigation, Forest, Watershed Development and Soil Conservation)	50.51	125.55	176.06
Others	56.86	76.93	133.79
<b>Total</b>	<b>174.21</b>	<b>656.37</b>	<b>830.58</b>

Due to non-furnishing of UCs, utilisation of grants for the intended purpose could not be ascertained. Although, position of outstanding UCs as of March 2009 was called for (August 2009), the same was not made available to audit.

#### 1.8.5 Arrears of Audit fees

Director, Local Fund Audit Department (DLFAD) is the statutory auditor for the accounts of PRIs. Audit fee at prescribed rate is paid to the DLFAD by PRIs. Audit fee of Rs 1.99 crore for the period up to March 2006 remained to be paid to DLFAD by 93 PRIs as of March 2009.

## 1.9 Lack of response to audit observations

**1.9.1** As of March 2006, 4,04,418 paras of 25,378 Inspection Reports<sup>3</sup> (IRs) in respect of PRIs issued by DLFAD were pending for settlement at the end of March 2009. First compliance of 160 IRs was also not received up to March 2009. Besides above, 51,050 cases of embezzlement pertaining to the period up to March 2006 and involving Rs 101.48 crore were pending as of March 2009.

**1.9.2** A total number of 1,354 IRs comprising 10,008 paragraphs and involving a monetary value of Rs 1,561.37 crore issued by office of the Principal Accountant General (up to August 2004) and thereafter by office of the Senior Deputy Accountant General (Local Bodies Audit & Accounts) (i.e from August 2004 to March 2006) were pending for settlement at the end of March 2009 as detailed below:

Year	Inspection Reports	Paragraphs	Money Value (Rupees in crore)
Up to 1999-2000	104	301	27.59
2000-01	73	92	64.19
2001-02	145	639	104.52
2002-03	189	1012	145.67
2003-04	256	1595	292.57
2004-05	343	3626	410.20
2005-06	244	2743	516.63
<b>Total *</b>	<b>1,354</b>	<b>10,008</b>	<b>1,561.37</b>

\*This includes 162 IRs comprising 634 outstanding paras of Soil Conservation Department

## 1.10 Impact of audit

During 2005-06, the following actions were taken by the PRIs at the instance of C&AG's audit:

- Excess payments, double payments, dues, interest on excess cash balances, rent of shops etc. aggregating to Rs 3.06 crore were recovered in 217 cases.
- Rupees 3.68 lakh diverted from one scheme to another in two cases was credited back to the schemes concerned.
- Unutilised funds of Rs 6.32 crore in 29 cases were surrendered to Government/funding agencies.
- In 10 cases involving Rs 88.35 lakh, remedial actions such as amendment in rules/orders, disciplinary action against erring officials. etc. were taken.
- *Panchayat Samiti* (PS), Data Ramgarh (Rs 4.82 lakh); PS, Neem ka Thana (Rs 10 lakh) and PS, Khandela (Rs 3.50 lakh) unauthorisedly retained education cess amounting to Rs 18.32 lakh. Rs 11.59 lakh (PS, Data Ramgarh: Rs 2.95 lakh; PS, Neem ka Thana: Rs 7.58 lakh and PS, Khandela: Rs 1.06 lakh) have been recovered as of April 2009.

3. Number of IRs issued upto 2001-02 not made available by DLFAD.

### **1.11 Conclusion**

The 'own revenue' of PRIs was meagre and therefore the rural local bodies were largely dependent on Government grants eroding their financial autonomy.

There was no mechanism with the PRD for centralised collection of data on the receipts and expenditure of various tiers of PRIs for further compilation and processing.

Widespread and persistent irregularities and deviations from prescribed accounting and budgetary control procedures indicating lack of adequate internal control mechanism in PRIs such as non-reconciliation and differences in cash balances, expenditure in excess of the allotted funds, non-adjustment/recovery of outstanding advances for a long period and non-refund of unspent balances of closed/inactive schemes were noticed in audit.

There were huge pendency of audit observations and delays in their settlement.

### **1.12 Recommendations**

- PRIs should be encouraged to augment their own resources so as to reduce dependency on the Government assistance.
- PRIs should ensure optimum utilisation of the available resources.
- Government should ensure full and timely release of funds to PRIs.
- Internal control and monitoring mechanisms should be strengthened.
- Special and concerted efforts are needed to adjust/recover the outstanding advances.
- Special drive should be launched for refund of the unutilised funds of closed/inactive schemes by PRIs to the Government department/funding agency concerned.