

CHAPTER - 1

An Overview of the Panchayat Raj Institutions

1.1 Panchayat Raj Institutions (PRIs): constitutional background

The 73rd Constitution Amendment envisages a three-tier system of Panchayats: (a) Gram Panchayat at the village level; (b) Zilla Parishad at the district level and (c) Panchayat Samiti between the village and the district levels (mostly at the block level).

The 11th Schedule to the Constitution delineates 29 functions to be devolved on the Panchayats. It, however, does not automatically confer any powers on PRIs or entrust them with the responsibility. The State legislature has been empowered by the 73rd Amendment to decide and to confer powers and responsibilities on PRIs.

The Constitution also provides that the State Government shall appoint a Finance Commission every fifth year to review the financial position of the Panchayats and recommend as to (i) the distribution between the State and the Panchayats, of the net proceeds of taxes, duties, tolls and fees leviable by the State, which may be apportioned between them and how allocation would be made among various tiers of Panchayats (ii) what taxes, duties, tolls and fees may be assigned to the Panchayats and (iii) grants-in-aid to Panchayats. The report of the Commission together with a memorandum of action on it is to be laid before the State legislature.

1.2 PRIs in West Bengal

The three-tier Panchayat system was envisaged in the West Bengal Panchayat Act, 1973, which came into force in June 1978 when the first general election for the Zilla Parishads, Panchayat Samitis and Gram Panchayats was held. Since then the general election for the panchayats has continued to be held every five years and the last election (i.e. the sixth in the series) was held in May 2003.

1.3 Devolution of functions, functionaries and funds

As of March 2005, the State Government reportedly transferred 28 functions out of 29 included in the 11th Schedule of the Constitution to the PRIs, along with funds and functionaries for 19¹ functions. But no supporting documents indicating the number of functionaries transferred could be produced by the P&RDD for audit scrutiny. Only one function, viz., technical training and vocational education could not be transferred for want of infrastructural facilities with the PRIs, as stated by the Department in January 2006. But as the funds and functionaries relating to nine functions out of 28 have not been transferred, the Department could not clarify (February 2006) as to how the devolution of the nine functions could effectively work in practice. In March 2007, the Department stated that the funds and functionaries relating to some more functions have been transferred, but necessary orders in support of this could not be produced to Audit.

During test check of 19 PRIs in March 2007, it was seen that 13 PRIs² denied any such transfer. Five PRIs³ stated that there were partial transfers, but no formal orders effecting such transfer could be furnished by them. Only one PRI⁴ admitted of formal transfer of only one function (Rural Electrification) together with funds and functionaries.

1.4 Area and population covered

The Act extends to the whole of West Bengal in areas other than Municipalities/Municipal Corporations/Cantonment areas. Thus 70 per cent of the total area (88,751 sq. km.) of the State inhabited by 5.77 crore of rural population, which is 72 per cent of the total population (8.02 crore as per 2001 census), came under the purview of the Act.

¹ (i) Agriculture, including agricultural extension (ii) Land improvement, implementation of land reforms, land consolidation and soil conservation (iii) Minor irrigation, water management and watershed development, (iv) Animal husbandry, dairying and poultry (v) fisheries (vi) Social forestry and farm forestry (vii) Small scale industries, including food processing industries (viii) Khadi, village and cottage industries (ix) Drinking water (x) Education, including primary and secondary schools (xi) Adult and non-formal education (xii) Libraries (xiii) Cultural activities (xiv) Health and sanitation, including hospitals, Primary Health Centres and dispensaries (xv) Family Welfare (xvi) Women and child development (xvii) Social Welfare, including welfare of handicapped and mentally retarded (xviii) Welfare of weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes (xix) Public distribution System.

² Bardhaman ZP, Galsi-I PS, Raniganj PS, Paraj GP, Chaktetul GP in Bardhaman district; Sri Sri Ramkrishna GP, Swami Vivekananda GP in South 24 Parganas district; Para PS, Raghunatpur-I PS, Anara GP, Bero GP, Nutandih GP, Para GP in Purulia district.

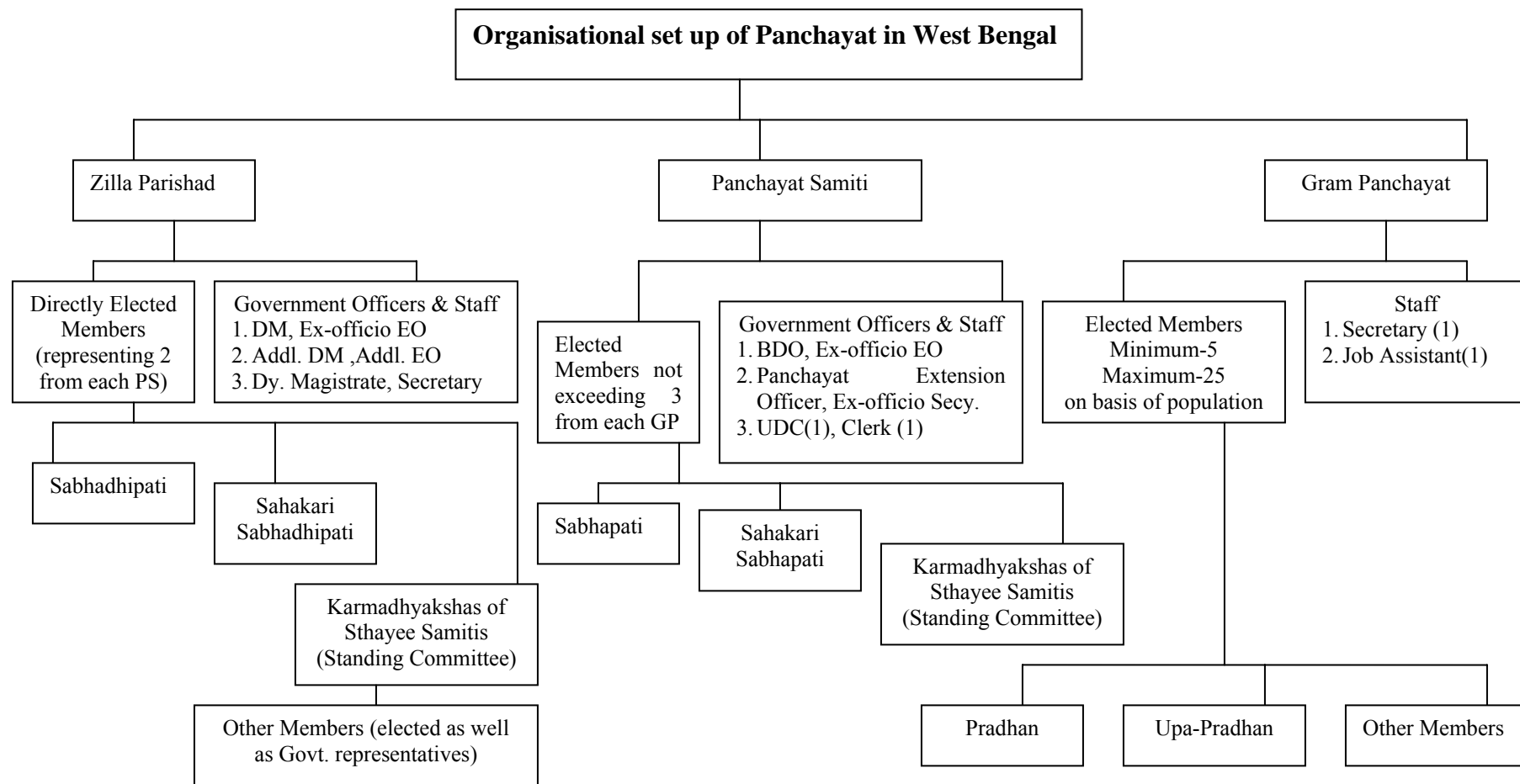
³ South 24 Parganas ZP, Namkhana PS, Kakdwip PS, Namkhana GP, Narayanpur GP in South 24 Parganas district.

⁴ Bankura ZP.

1.5 Organisational structure of the PRIs

There are 17 Zilla Parishads (ZPs), one Mahakuma Parishad (with all the powers and authority of the Zilla Parishad) for Siliguri Sub-Division, 341 Panchayat Samitis (PSs) and 3354 Gram Panchayats (GPs) in the State. Panchayat and Rural Development Department (P&RDD) headed by a Principal Secretary exercises administrative control over the Panchayat Raj Institutions.

The organogram given below depicts the organisational set up of the Panchayat Raj System in West Bengal.



The Act envisages the functioning of the ZPs and PSs, through ten functional Standing Committees called Sthayee Samitis* having elected representatives and concerned officials as members. Each of the Sthayee Samitis of the ZPs/PSs is headed by a Karmadhyaksha (also an elected representative). No such Sthayee Samitis have, however, been provided for the GPs which shall function through one or more groups of members (popularly called as Upa-Samitis) with a convener for each, nominated from the concerned group, as envisaged in the Act.

1.6 Powers, functions and duties vested with the PRIs

The Act vests a PRI with the following powers and duties: (i) to prepare development plan/annual action plan, (ii) to implement schemes for economic development and social justice as may be drawn up by, or entrusted upon it (in pursuance of 11th Schedule of the Constitution), (iii) to manage or maintain any work of public utility and (iv) to collect revenue for utilisation of such funds for development work.

1.7 Lodging and flow of funds

The funds for ZPs and PSs are lodged in Treasury in Deposit Account (head “8448-Local Fund Deposit Account, 109-Panchayat Bodies”), which is operated as non-interest bearing banking account. Centrally sponsored scheme funds are kept in banks in Savings Account according to guidelines for the respective schemes. The funds for GPs are to be kept in Savings Bank Account at the nearest Post Office or a Scheduled Bank or a Co-operative Bank.

* (1) Artha, Sanstha, Ummayan O Parikalpana (Finance, Establishment, Development and Planning).

(2) Jana Swasthya O Paribesh (Public Health and Environment).

(3) Purtakarya O Paribahan (Public Works and Transport).

(4) Krishi, Sech O Samabaya (Agriculture, Irrigation and Co-operation).

(5) Siksha, Sanskriti, Tathya O Krira (Education, Culture, Information and Sports).

(6) Sishu O Nari Unnayan, Janakalayan O Tran (Children and Women’s Development, Social Welfare and Relief).

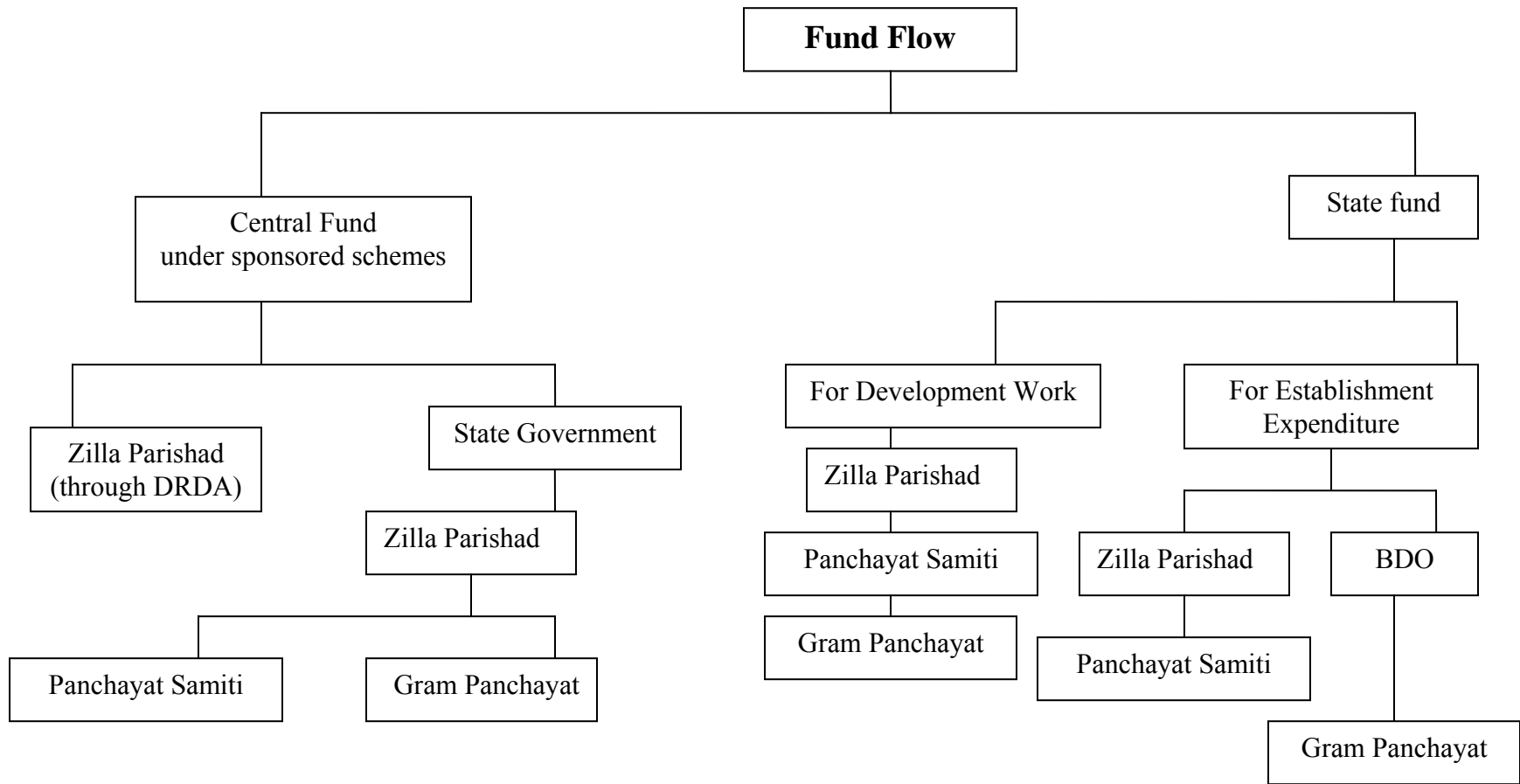
(7) Ban O Bhumi Sanskar (Forest and Land Reforms).

(8) Matsya O Prani Sampad Bikash (Fishery and Animal Resource Development).

(9) Khadya O Sarbaraha (Food and Supplies).

(10) Kshudra Shilpa, Bidyut O Achiracharit Shakti (Small Industries, Power and Non-conventional Energy Sources).

A fund flow statement is given below:



1.8 Status of creation of database on finances and maintenance of accounts

The format prescribed by the C&AG of India for maintenance of database by PRIs is yet to be adopted by the Government of West Bengal.

The Government intimated (August 2005) that Eleventh Finance Commission recommended Local Body Grant of Rs. 577.75 crore out of which Rs. 1.46 crore was for maintenance of accounts and Rs. 2.93 crore for creation of database. But it had not received any grant in spite of recommendation from Eleventh Finance Commission (EFC) specifically for maintenance of accounts and creation of database. The State received Rs. 346.64 crore only and out of this Rs. 0.55 crore was spent on maintenance of accounts and Rs. 0.24 crore on creation of database during the tenure of the 11th FC.

The State Government, however, had developed and introduced two software packages namely Integrated Fund Management and Accounting System (IFMAS) and Gram Panchayat Management System (GPMS) for maintenance of accounts and database for ZP/PS and GP respectively. The status of application of the software packages is as follows (January 2007).

Item	ZPs	PSs	GPs
Training	17	88	277
Installation	17	83	277
Working	13	47	189

1.9 Sources of Revenue

1.9.1 Government Grants and 'Own Source Revenue' (OSR)

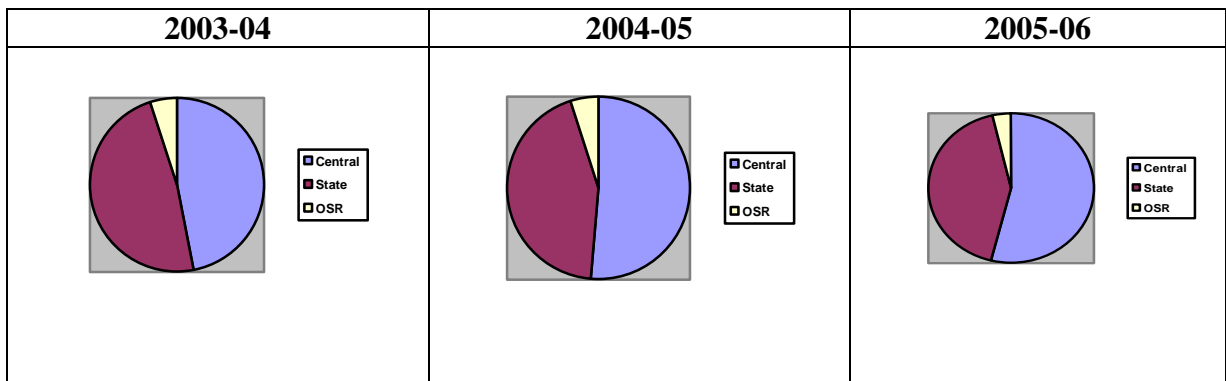
Sources of revenues of PRIs mainly consist of grants from Central and State Governments for implementation of various Central and State schemes. Besides meeting the cost of salary and allowances, the State Government transfers share of some taxes collected by it according to recommendations of the State Finance Commission. A small percentage of funds received by the PRIs consists of 'own source revenue' (OSR).

The revenue received by the PRIs during the last three years according to their sources is as follows:

Sources of revenue		Amount (Rupees in crore)		
		2003-04	2004-05	2005-06
Central Government Grants	GOI share of Centrally sponsored schemes released directly to PRIs	403.07	530.79	948.99
	Additional Central assistance and Finance Commission grants released through State budget	72.07	124.97	174.79
	Total	475.14	655.76	1123.78
State Government Grants	Salary grants	183.93	193.39	192.43
	Other grants	161.75	200.61	425.23
	State share of Centrally sponsored schemes	142.03	161.62	273.77
	Total	487.71	555.62	891.43
Grand total of grants received from Central and State Governments		962.85	1211.38	2015.21
Own Source Revenue (OSR)	Gram Panchayats	33.59	37.97	45.62
	Panchayat Samitis	8.25	12.68	15.44
	Zilla Parishads	10.07	13.78	13.03
	Total	51.91	64.43	74.09
Total revenue from all sources (Government grants plus own source revenue)		1014.76	1275.81	2089.30
Percentage of Government grants to total revenue		95	95	96
Percentage of OSR to total revenue		5	5	4

It would be seen from the above that during the period from 2003-04 to 2005-06 the PRIs continued to be overwhelmingly dependent on grants from the Central and State Governments which increased by 137 *per cent* and 83 *per cent* during the same period as illustrated below:

Sources of Revenue: Percentage Component



1.9.2 Funds received from Line Departments

The P&RDD could not furnish (March 2007) any information on the funds received by the PRIs during 2003-04 to 2005-06 from various line departments of the State Government for implementation of programmes for socio-economic development within their functional areas.

1.10 Application of funds

The following table shows release of Central and State grants during 2003-04 to 2005-06 according to objects of expenditure and categories of PRIs. However, this does not include the GOI share of Centrally sponsored schemes released directly to PRIs and funds released from line departments. The P&RDD stated (March 2007) that such details in respect of the above two categories of releases were not compiled by it.

(Rupees in crore)

Year	Head	Amount released			Of which, amount actually made available to		
		Central	State	Total	ZPs	PSs	GPs
2003-04	Salary & allowances	0	183.93	183.93	22.10	14.80	147.03
	Funds for implementation of schemes	41.76	271.92	313.68	176.45	27.16	110.07
	Other grants	30.31	31.86	62.17	29.93	2.54	29.70
	Total	72.07	487.71	559.78	228.48	44.50	286.80
2004-05	Salary & allowances	0	193.39	193.39	25.19	13.96	154.24
	Funds for implementation of schemes	66.73	302.71	369.44	180.30	37.89	151.25
	Other grants	58.24	59.51	117.75	35.12	27.17	55.46
	Total	124.97	555.61	680.58	240.61	79.02	360.95
2005-06	Salary & allowances	0	192.43	192.43	24.63	12.74	155.06
	Funds for implementation of schemes	47.69	364.61	412.30	174.60	56.29	181.41
	Other grants	127.10	334.40	461.50	145.87	85.78	229.85
	Total	174.79	891.44	1066.23	345.10	154.81	566.32

The sharp increase in 'Other grants' during 2005-06 was due to increase in 12th Finance Commission, State Finance Commission and other State grants compared to earlier years.

The P&RDD has no consolidated information on expenditure incurred by the PRIs out of the funds received by them from all sources.

1.11 Allocation and utilisation of State Finance Commission Grants

The recommendations of the Second State Finance Commission (SFC) of West Bengal constituted in July 2000 covered the period from 2001-02 to 2005-06. The following two basic recommendations of the State Finance Commission that could improve the financial position of the PRIs were not accepted by the State Government: (i) The Commission recommended providing an entitlement fund for rural as well as urban local bodies constituting 16 per cent of State taxes. Instead, the Government decided to allocate 'the maximum amount possible' out of its resources without establishing any definite linkage of the quantum of entitlement out of State taxes. (ii) The Commission also recommended that a minimum amount of Rs. 700 crores should be provided in the budget for devolution to rural and urban local bodies as untied entitlement. The State Government fixed the level at Rs. 350 crore (i.e. 50 per cent of the recommended amount) only recently in the budget for 2005-06.

The P&RDD has no information about expenditure incurred by PRIs out of SFC grants.

The Third State Finance Commission was constituted on 22 February 2006 and is yet to submit its report (March 2007).

1.12 Allocation and utilisation of Eleventh Finance Commission grants

Eleventh Finance Commission (EFC) had recommended total grants of Rs. 577.75 crore to PRIs as indicated in paragraph 1.8 earlier during the five years from 2000-01 to 2004-05 to augment the resources of the Panchayats and thereby enabling them to provide civic services in rural areas on its own.

The details of allocation and utilisation of EFC funds during 2000-01 and 2004-05 are shown below.

(Rupees in crore)

Year	OB	Release to PRIs during the year	Total available fund with PRIs	Amount utilised by PRIs	Percentage of utilisation of funds	Closing Balance
2000-01	0	57.7	57.7	0.52	0.9	57.18
2001-02	57.18	170.45	227.63	25.61	11.25	202.02
2002-03	202.02	30.81	232.83	114.58	49.21	118.25
2003-04	118.25	35.99	154.24	74.13	48.06	80.11
2004-05	80.11	89.93	170.04	58.01	34.11	117.31

It would be evident from the above table that the percentage of utilisation of EFC funds during the years from 2000-01 to 2004-05 varies from 0.9 per cent to 49.21 per cent which was far below the desired level.

1.13 Twelfth Finance Commission grants

The Twelfth Finance Commission (TFC) awarded grants of Rs. 1271 crore for the PRIs of the State. The grants would be payable during the years from 2005-06 to 2009-10.

In terms of recommendations of the TFC, the States have to mandatorily transfer the grants released by the GOI to the PRIs within 15 days of the grants being credited to the State Account, failing which the State Government would have to transfer to the PRIs, interest at a rate equal to the RBI rate along with the delayed transfer of grants.

The details of receipt and utilisation of TFC grants during 2005-06 are shown below.

(Rupees in crore)

Year	Receipt of grants from GOI		Release of grants to PRIs by State Government		Utilisation of grants by PRIs as of March 2006	Interest released by the State Government to PRIs	
	Date	Amount	Date	Amount		Date	Amount
2005-06	6 October 2005	127.10	17 November 2005	127.10	6.04	30 May 2006	0.88

It would be seen from the above table that due to delay in release of grants the State Government had to bear an avoidable expenditure of Rs. 0.88 crore.

An overall audit of release and utilisation of TFC grants could not be taken up (March 2007) due to non-furnishing of requisite documents and information by the State Government.

However, a test check of 19 PRIs in March 2007 revealed the following:

Out of grants released for 2005-06, 10 per cent was to be spent at the minimum for the priority sectors i.e. (i) maintenance of accounts (ii) creation of database and (iii) water and sanitation service. The limit of the minimum has been extended (December 2006) to 30 per cent in case of GPs and 25 per cent in case of PSs and ZPs. The test check revealed that seven PRIs⁵ did not follow the norm for utilisation of grants received for 2005-06 and three PRIs⁶ for 2006-07. Percentage of grants for 2005-06 spent for priority sectors by seven PRIs ranged from zero to 2.69 while for 2006-07 in case of three PRIs the percentage ranged from zero to 7.36.

1.14 Overall financial position of PRIs

The P&RD Department had no consolidated information on opening balance, total receipts, total expenditure and closing balance in respect of the PRIs. The P&RDD has not yet developed any system for monitoring all receipts and expenditure of the PRIs (March 2007).

1.15 Sectoral analysis

The accounting system prescribed by the State Government to be followed by the PRIs does not have a mechanism to capture receipts and expenditures under important sectors like education, health, nutrition, social forestry etc. that may be amenable to sectoral analysis of such transactions. This was pointed out to the State Government (July 2006, September 2006 and March 2007) but further action in this regard is awaited.

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Name of PRI	Percentage of grants spent for priority sectors
(i) Bankura ZP	2.69
(ii) Raniganj PS	0
(iii) Kakdwip PS	2.56
(iv) Narayanpur GP	0
(v) Vivekananda GP	0
(vi) Namkhana GP	0
(vii) Ramkrishna GP	0

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Name of PRI	Percentage of grants spent for priority sectors
Raniganj PS	0
Chak Tentul GP	5.30
Kakdwip PS	7.36

1.16 District Planning Committee

As envisaged in Article 243 ZD of the Constitution, West Bengal District Planning Committee Act and Rules, 1994, provided for setting up a District Planning Committee (DPC) for each district. The DPC is to coordinate the plans prepared by the Panchayats and Municipalities in the district and prepare a District Development Plan (DDP) with special attention to the matters of common interest of the local bodies.

A test check of records in nine districts⁷ in March 2007 revealed the following:

(a) Delay in formation of DPC in nine districts ranged from two to 12 years from the date of passing of the Act and framing of the rules.

(b) Against the norms of one meeting every three months per DPC and 36 meetings per year to be held by nine DPCs during 1996-97 to 2006-07, the number of meetings per year ranged from three to 24.

(c) It was noticed that no DDP was prepared in any district during 2003-04 to 2005-06.

(d) Basic records like annual plans and perspective plans prepared by Panchayats and municipalities on the basis of which the DDPs were to be prepared could not be furnished to Audit relating to the period from 1996-97 to 2006-07.

Thus the functioning of the DPCs was found in audit to be irregular and ineffective.

1.17 Assets Management

The P&RDD has not yet developed (March 2007) any effective system for valuation of assets created by the PRIs during a year and assets accounting. It has also not created any mechanism for obtaining data on assets creation on regular basis from the PRIs that were financed out of the State budget.

⁷ Hoogly, Birbhum, Jalpaiguri, South-24 Parganas, Howrah, Purba Medinipur, Dakshin Dinajpur, Bankura, Coochbehar.

1.18 Audit Arrangement for PRIs

As per provisions of the West Bengal Zilla Parishads Act, 1963/West Bengal Panchayat Act, 1973, the State Government is to appoint an Auditor for audit of the accounts of ZP, PS and GP.

The Examiner of Local Accounts (ELA), in the office of the Accountant General (Receipt, Works and Local Bodies Audit), West Bengal had been appointed Auditor to audit Zilla Parishads and Panchayat Samitis (earlier called Anchalik Parishads)⁸.

Audit of the Gram Panchayats was conducted till 2001-02 by the Extension Officer (Panchayat), a State Government official stationed at the respective Block offices. Subsequently, by a notification in March 2003, the Examiner of Local Accounts had been appointed as Auditor of Gram Panchayats also, from 2002-03 onwards.

1.19 Audit Coverage

Audit of accounts of 17 ZPs, one Mahakuma Parishad (MP), 147 PSs for the years up to 2004-05 and 3350 GPs (out of 3354) for the year 2004-05 were conducted during 2005-06. Audit of accounts of four GPs (as detailed in **Appendix-XXXII**) could not be taken up during 2005-06 for want of records. The audit findings are discussed in the succeeding paragraphs.

⁸ Vide Rule 101 (1) of the West Bengal Zilla Parishads (Election, Constitution and Administration) Rules, 1964 framed under the West Bengal Zilla Parishads Act, 1963. The erstwhile general framework of four-tier PRIs as provided for in the 1963 Act was, however, replaced by three-tier PRIs as provided for in the West Bengal Panchayat Act, 1973.