

CHAPTER - I

AN OVER VIEW OF THE PANCHAYAT RAJ INSTITUTIONS

1.1 Introduction

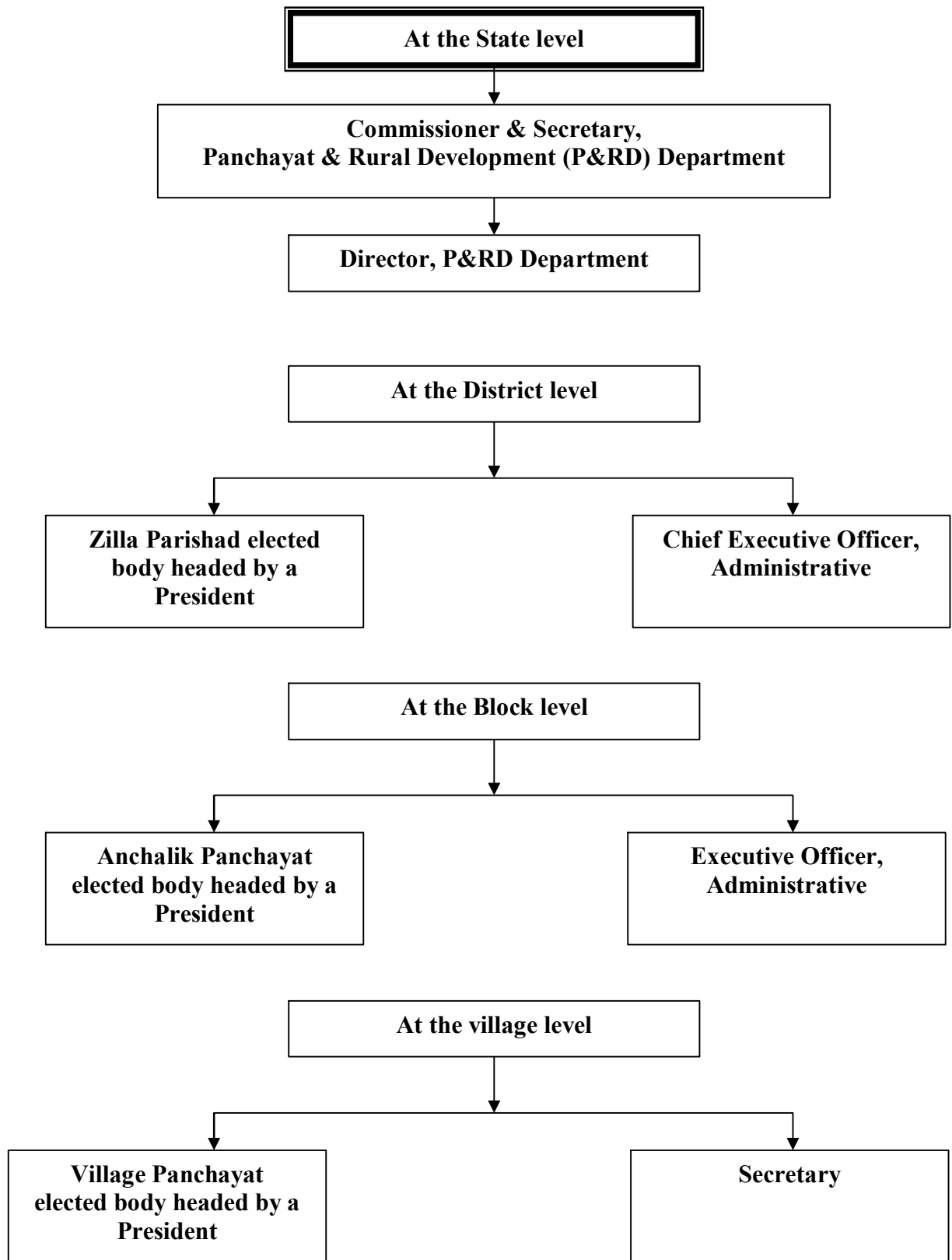
The audit institutions entrusted with responsibility of audit of Local Bodies, derive their duties and powers from Articles 243 J and 243 Z of the Constitution of India, which expect the States to make Legislation for maintenance of accounts by the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and their audit. Accordingly, various States have passed necessary legislation for maintenance of accounts and audit of Local Bodies.

Consequent upon passage of 73rd and 74th Constitutional Amendment Act 1992, the Assam Panchayat Act 1986 has been replaced by “The Assam Panchayat Act 1994”, passed by Legislature in May 1994, to decentralize powers and have a three tier structure of local self governing bodies at the district, block and village level. With these landmark constitutional amendments, the local self-government at various levels got a new lease of life and many state laws were enacted to ensure proper functioning of democracy at the grass-root level.

1.2 Organizational Set Up

There are 20 Zilla Parishad, 190 Anchalik Panchayats and 2203 Gaon Panchayats in the State of Assam Panchayat and Rural Development Department (P&RD) headed by a Commissioner & Secretary exercises administrative control over the Panchayat Raj Institutions (PRI).

The organogram given below depicts the organizational set up of PRIs in Assam



1.3 Devolution of functions, functionary and fund

The State Government reported as on March 2007 that it transferred the remaining 23 functions out of 29 included in the 11th Schedule of the Constitution to the PRIs along with funds and functionaries (17 departments). But no supporting documents indicating the number of functionaries transferred could be produced by the P&RD Department for audit scrutiny. As the fund and functionaries relating to 23 functions out of 29 have not been transferred, audit could not verify as to how the devolution of 23 functions could effectively work in practice. During test check of 23 PRIs (March 2007), it was seen that all the PRIs denied such transfer.

The developmental works in respect of Education, Soil Conservation, Handloom & Textiles, Power, Agriculture and Veterinary were considered for execution and remaining functions were not yet transferred to the PRIs.

1.4 Power and duties of PRIs

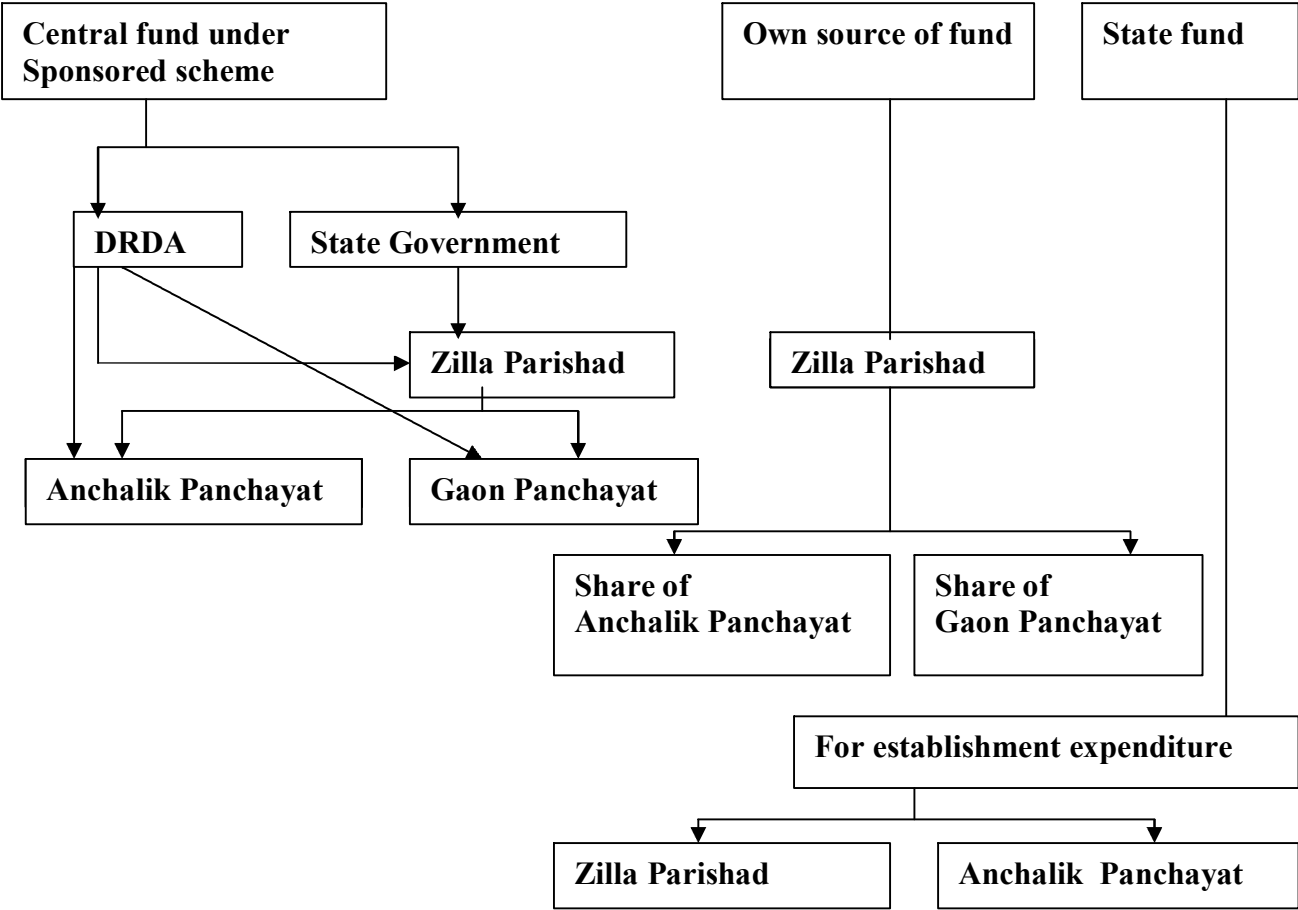
The Assam Panchayat Act vests PRIs with the following powers and duties:-

- (i) to prepare Developmental Plan/Annual Action Plan,
- (ii) to implement schemes for economic development and social justice as may be drawn up by or entrusted upon in pursuance of the 11th Schedule of the Constitution,
- (iii) to manage or maintain any work of public utility and
- (iv) to collect revenue and utilization of such fund for developmental works.

1.5 Flow of Fund

The funds for Zilla Parishad (ZP) and Anchalik Panchayat (AP) are lodged in Treasury account (under head 2515-Other Rural Development Programme, 101-Panchayat Raj) which is operated as non-interest bearing banking account. Centrally Sponsored Scheme funds are kept in nationalized Banks in savings account according to guidelines for the respective schemes. The funds for Gaon Panchayat (GP) are kept in savings bank account at the nearest Post Office or schedule Bank or Co-operative Bank.

Fund Flow



1.6 Financial Profile

PRIs Fund comprises receipts from their own resources under their jurisdiction, State/Central government grants and assistance provided from time to time, loans obtained from public financial institutions/nationalized banks or such other institutions as the State Government may approve, sums received as donations/contributions and all income from any trust or endowment.

GPs are required to prepare Annual Budget of estimated receipts/payments and forward the same to Anchalik Panchayat for approval. If APs fail to give approval within 30 days from the date of submission, the budget shall be deemed to be approved (Section 27 of Assam Panchayati Raj Act, 1994).

Similarly APs are required to submit their Annual Budget to the ZP. ZP submits their Annual Budget to the State Government through the Director, Panchayat and Rural Development, Assam. State Government may either approve the budget or return it to the ZP for modification to which the ZP shall oblige. If State Government approval is not received within 30 days from

the date of submission, the budget shall be deemed to be approved by the State Government as per Section 96 of Assam Panchayat Raj Act, 1994.

Test check of records of PRI units (ZPs & APs) revealed that budgets were prepared by the ZPs & APs only for own revenue resources. Due to non-inclusion of estimated receipts & expenditures out of State/Central Government funds in the Budget actual fund position could not be ascertained. It was also revealed that Budgets were not prepared in the prescribed formats of the CAG as the order of the Government of Assam was not issued in this regard.

The P&RD Department had no consolidated information on fund position with PRIs. The P&RD Department did not develop any system for monitoring all receipts and expenditures of the PRIs. Further, P&RD Department could not furnish any information on the funds received by the PRIs during 2003-04 to 2006-07 from various line departments for socio-economic programmes.

The Expenditure as per Finance Accounts for 2006-07 of Government of Assam for Major Head 2515-Other Rural Development Programmes (State Plan & Non-Plan Scheme), 101-Panchayati Raj, 1356-(Assistance to Panchayat Institute of Mahakuma Parishad (now Zilla Parishad)/GPs' Staff is as follows :

(Rs in Lakh)

Year	Expenditure under MH-2515-ORDP		Total
	Non-Plan	Plan	
2004-05	2169.03	676.40	2845.43
2005-06	2723.21	6.61	2729.82
2006-07	9541.79	1581.98	11123.77

Own source of Revenue

The own source of revenue of the P&RD during the period 2004-05 to 2006-07 is given below:-

(Rs in lakh)

Year	Own Revenue of			Total
	ZP	AP	GP	
2004-05	451.89	19.11	307.65	778.65
2005-06	497.08	21.22	338.41	856.71

2006-07 figures not available

State Finance Commission Grant

Test check of 23 PRI units revealed that SFC grant was not received by the PRIs during the period from 2002-03 to 2006-07.

1.7 Eleventh and Twelfth Finance Commission Grants

(A) Eleventh Finance Commission Grants

Eleventh Finance Commission (EFC) had recommended total grants of Rs.115.06 crore during 2003-04 to 2004-05 to augment the resources of Panchayats and thereby enable them to provide civic services in rural areas.

The details of EFC grants received and utilized by PRIs during 2003-04 to 2005-06 were as detailed below:

(Rs in crore)		
Year	Amount received	Amount utilized
2003-04	23.34	23.34
2004-05	45.03	45.03
2005-06	46.69	46.69

An overall audit of release and utilization of grants could not be taken up due to non-furnishing of release and utilization certificate by the State Government. However, test check of release and utilization of EFC grants by Dhubri ZP and Goalpara ZP revealed the following irregularities:-

The Director of Panchayat and Rural Development, Assam, Guwahati released Rs.8.01 crore of EFC grants to two Zilla Parishads (Dhubri ZP Rs.6.48 crore and Goalpara ZP Rs.1.53 crore) during 2003-04 to 2005-06. The amount was received by the respective Chief Executive Officer (CEO) of the ZPs during 2002-2006 and the same was deposited in savings bank accounts. Out of this Rs.8.01 crore, as on March 2007, an amount of Rs.4.47 crore only was released by two ZPs to the APs/GPs for implementation of various schemes leaving a balance of Rs.3.55 crore. Non-release of EFC grants to the GPs is not in order and resulted in the developmental works being affected in the GPs concerned.

(B) Twelfth Finance Commission Grants

The Government of India, based on the recommendation of the TFC awarded Rs.526.00 crore grant to PRIs in Assam State to be released during 2005-2010.

The position of receipt and release of Twelfth Finance Commission (TFC) grants during the year 2005-06 and 2006-07 was under:-

(Rs in lakh)

Year of grant	Amount of Grant	Date of receipt by the State Govt	Date of release of grants to PRIs	Number of delay in release of grants	Interest payable
2005-06	4236.405	22.11.06	8.12.06	2 days	1.28
	641.195	15.12.06	16.12.06	-	-
	126.675	3.4.07	21.4.07	3 days	0.29
	255.725	19.7.07	19.7.08	365 days	14.06
2006-07	4236.405	17.12.07	10.1.08	390 days	248.96
	641.195	18.10.07	11.10.08	392 days	37.82
	126.675	11.1.08	31.12.08	354 days	6.76
	255.725	11.1.08	31.12.08	354 days	13.64
Total					322.81

As envisaged in para 6.1 and 6.4 of the guidelines on release and utilization of TFC grants circulated vide GOI, Ministry of Finance, Department of Expenditure (June 2005), States were mandatorily required to transfer the grants released by the Government of India to PRIs within 15 days of the same being credited to the state's accounts concerned. In case of delayed transfer of funds to PRIs beyond the specified period of 15 days, the State Government was to pay interest to PRIs at the RBI bank rate along with such transferred grants.

Based on information and certificate received from the State Government, it was noticed by audit that there was a delay ranging from 2 to 392 days in crediting the funds to the respective bank accounts of PRIs. However, interest amounting to Rs.322.81 lakh had not been reimbursed by State Government. Non-payment of interest on delayed transfer of grants was communicated to the State Government and no reply was furnished (June 2008).

(ii) The information furnished by the Director, P&RD, Assam, regarding utilization of the TFC grant during 2006-07 is given below:

(Rs in lakh)		
Year	Amount sanctioned & receipt of grants	Utilization of grants by PRIs
2006-07	Rs.5260.00	Rs.5260.00

It was revealed that an amount of Rs.510.88 lakh (earmarked for maintenance of accounts Rs. 193.30 lakh and creation of database Rs.317.58 lakh) was not utilized (January 2009) as the accounting formats prescribed by the C&AG of India for maintenance of accounts and creation of database were not implemented by the State Government of Assam. Thus the Utilization Certificates given by the Director, P&RD, Assam is incorrect and resulted in non-utilisation of TFC grants of Rs. 510.88 lakh.

(C) Asset Management

The P&RD Department had not yet developed (June 2008) any effective system for accounting/valuation of assets created by PRIs. There was no system in place for obtaining data on asset creation by PRI out of the State funds/own funds on regular basis.

1.8 Audit Arrangement for PRIs

As per Section 29 and 37(iii) of Assam Panchayat Act 1994 Assam Panchayat Act 2004, the State Government is to appoint an auditor for audit of the accounts of ZP, AP & GP.

In Assam the Director of Audit (Local Fund), Assam is vested with the authority for audit of accounts of the ULBs and PRIs. As per recommendations of the Eleventh Finance Commission and the guidelines for utilization of grants to Local Bodies issued by Finance Ministry, Government of India, the Comptroller and Auditor General of India has been entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all three levels of PRIs/ULBs under Section 20(1) of C & AG's (Duties and Powers and Condition of service) Act, 1971.

Thus the Director of Audit (Local Fund), Assam is the primary auditor for Local Bodies, while the C&AG of India conduct a test check by way of technical guidance and supervision.

1.9 Audit Coverage

Audit of accounts of 23 PRIs (2 ZP and 21 APs) covering the accounts up to 31 March 2007 was conducted during January 2007 to December 2007.

1.10 Adoption of Accounting Database formats

Adoption of Budget and accounts format to PRIs prescribed by Comptroller & Auditor General (C&AG) of India during 2002 was accepted by the Government of Assam in August 2004, but the corresponding Budget and Accounts Manual were not yet formulated.

Similarly Data base formats prescribed by C&AG of India, though accepted by the State Government, were not made operational.

The State Government however, had developed and introduced one software package namely PRISOM for maintenance of accounts & database for ZP, AP and GP respectively. The status of implementation of the software package was not intimated (December 2007).

Test check of 23 PRIs (up to March 2007) also revealed that Rs.5.75 lakh (23 x Rs.25,000/-) grants released for creation of data base during 2006-07 has not been utilized as per the direction of PR Directorate.

1.11 Audit arrangement and Response to Audit Observations

The Principal Accountant General (Audit), Assam conducts audit of PRIs under section 20(1) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective PRIs in the form of Local Audit Reports (LARs) with copy to the State Government. Replies were required to be furnished within four weeks of receipt of LARs. Only 10 PRI units furnished reply to the LAR. Due to non-furnishing of specific reply by the auditees, no LAR paragraph has been settled as on date (June 2008). The year wise position of LARs and outstanding paragraphs with money value is given below:

Year	Number of LARs	Paragraphs outstanding	Money value (Rs in crore)
2004-05	8	117	7.63
2005-06	19	274	55.56
2006-07	23	371	5.74
Total	50	762	68.93

Thus 50 LARs and 762 paragraphs with monetary value of Rs.68.93 crore were pending for settlement (31st July 2008) for want of replies from PRIs.

Director, Local Fund Audit, Assam is the primary auditor who conducts audit of PRIs. As per information furnished by the DLFA out of 2408 units of PRIs 101 units (1 ZP, 1AP and 99 GPs) have been audited by DLFA.

Proposals were made for placement of LB's report in the State Legislative Assembly for discussion & settlement of the objections on the spot by constituting Audit Committee at appropriate level at PAGs' end. Action of the State Government is awaited.

1.12 Recommendations

- (i)** State Government should take effective steps so that PRIs update their accounts/account records and ensure proper financial reporting. Responsibilities should be fixed clearly for preparation of accounts so that lapses in this regard can be addressed and rectified.
- (ii)** State Government may consider establishing a system to have consolidated information on all the PRIs in the State and maintenance of data base of PRIs at the State level.
- (iii)** Budget/Account Rules for PRIs may be prepared and put to practice.
- (iv)** Audit Committee be constituted at district level to discuss and settle audit objections. This would ensure establishing accountability structure at grass root level.
- (v)** State Government should ensure that the TFC Funds are released to PRIs immediately on receipt of fund from Government of India.
- (vi)** Budget should be prepared to cover all the receipts.

