

## **CHAPTER – II**

### **ANNUAL TECHNICAL INSPECTION REPORT OF THE PANCHAYATI RAJ INSTITUTIONS**

#### **AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS**

##### **1.1 Introduction**

Goa along with Daman & Diu was liberated in December 1961 from the Portuguese rule. After liberation, the President of India promulgated the Goa, Daman & Diu Village Panchayat Regulation, 1962 under Article-240 of the Constitution of India. The said Regulation provided for setting up of a single tier Panchayati Raj system in the Union Territory of Goa, Daman & Diu. Thus, for the first time the Panchayati Raj Institutions (PRIs) came into existence in Goa in 1962.

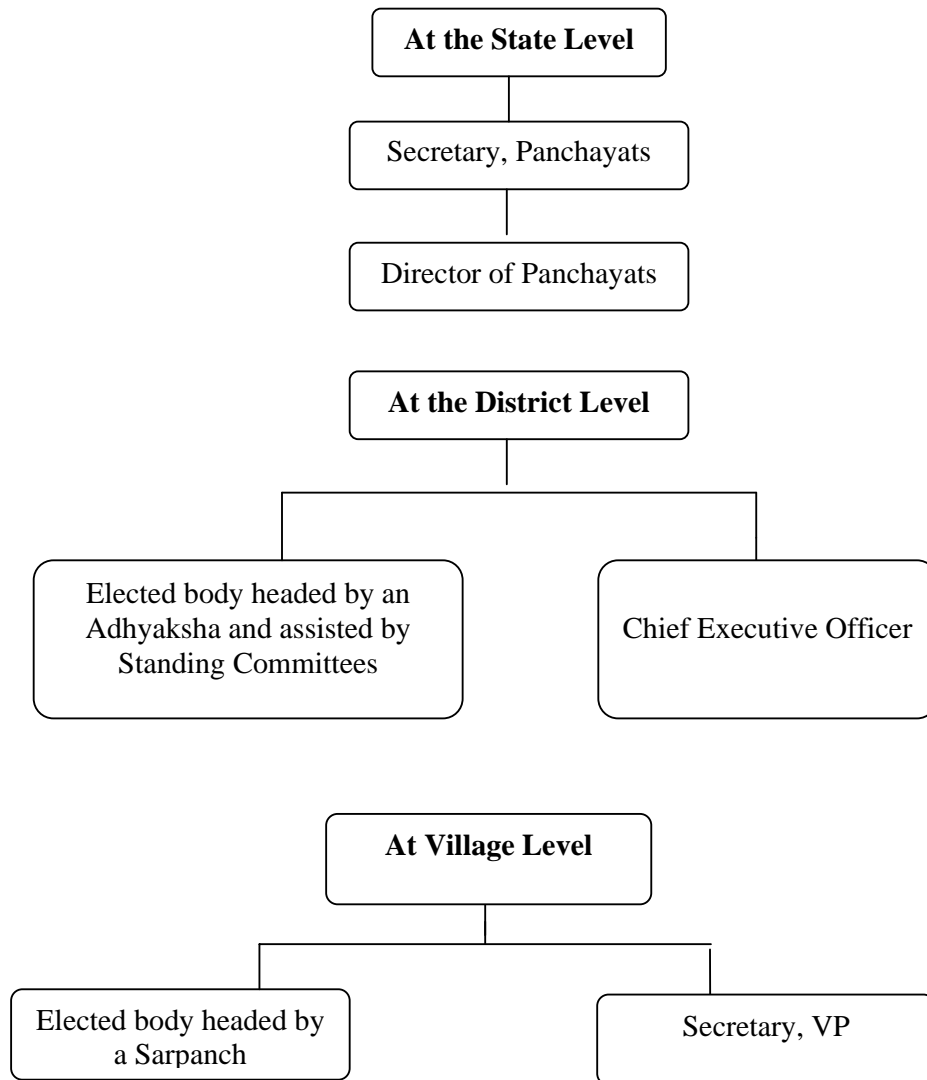
The 73<sup>rd</sup> amendment to the Constitution, carried out in 1992, prescribed a three-tier structure (two tiers in case of states with population less than 20 lakh) for Panchayati Raj Institutions. The Legislature of a State was required to endow the Panchayats by law, with such powers and authority as was necessary to enable them to function as institutions of self-government. Accordingly, the Goa Panchayat Raj Act was enacted in 1994 to establish a two-tier Panchayat system of elected bodies – Village Panchayats (VPs) at village level and Zilla Panchayats (ZPs) at district level.

The State of Goa consists of two Districts namely 'North Goa' and 'South Goa', comprising six Blocks and five Blocks respectively. Each Block is headed by a Block Development Officer (BDO) who is assisted by the respective Extension Officers and their staff. As of March 2007, there were two ZPs and 189 VPs in the State of Goa.

Last elections for ZPs were held in March 2005 and those of VPs were held in May 2007.

## 1.2 Organisational set-up

The organisational set-up of PRIs is shown below:



The Secretary, Panchayats is the Administrative Head of the Panchayat Department. The Director of Panchayats (DoP) exercises control and supervision over the PRIs and also acts as the Appellate Authority under the Goa Panchayat Raj Act.

Adhyakshas head the ZPs. The ZPs in Goa have full time Chief Executive Officers besides other staff. Sarpanchs head the VPs. The VPs are provided with Secretaries and other staff. As per sections 142 and 63 of the Goa Panchayat Raj Act 1994, various Standing Committees are set up in ZPs and VPs respectively for governing their functions.

The ZPs are responsible for preparation of plan for development and overall supervision, co-ordination and implementation of development schemes. Similarly, the VPs are also required to prepare annual plans for the development of Panchayat areas, maintain essential statistics, remove encroachment on public property and undertake implementation of assigned schemes/works.

As per section 239 of Goa Panchayat Raj Act 1994, District Planning Committees (DPC) are required to be set up for the districts in the State. Every year, a development plan is required to be prepared by every VP and submitted to the ZP which would consolidate the development plans received from all the VPs and forward the same to the DPC who would prepare a draft development plan for the district as a whole and send to the Government.

The First DPCs were set up by Government of Goa in October 2003, in North and South Goa Districts. These committees were reconstituted in September 2006. North Goa DPC conducted only one meeting in November 2003 and no further activity has been carried out so far (March 2008). In respect of South Goa DPC, no meeting has been conducted and no activity has been carried out so far (March 2008). Thus, effectively the DPCs are non-functional and the purpose of consolidating district level development plans remains unachieved.

Scrutiny of eight VPs test checked under TGS for the period 2005-06 revealed that none of these VPs had prepared their Annual Development Plan and submitted to the DPC. It was stated by the VP Secretaries (June 2007) that these Plans would henceforth be prepared and submitted to the DPC.

### 1.3 Devolution of Functions

The XIth Schedule appended to the Constitution of India gives a list of the 29 functions and responsibilities that may be devolved to the PRIs. The Schedules-I and II appended to the Goa Panchayat Raj Act envisaged entrustment of 26 and 29 functions to ZPs and VPs respectively (Appendix-II). However, only the following five and 13 functions have been devolved partly to the ZPs and VPs respectively.

#### Functions devolved to ZPs

Sr. No.	Sr. No. of Schedule XI	Name of Function /Scheme
1	3	Minor Irrigation, Water Management & Watershed Management
2	17	Education including Primary school
3	23	Health & Family Welfare
4	26	Welfare of the weaker sections, in particular of handicapped & mentally retarded
5		Merger of DRDA's with Z.P., Financial Assistance to VPs & SGRY

#### Functions devolved to VPs

Sr. No.	Sr. No. of Schedule XII	Name of Function /Scheme
1	1	Agriculture including Agricultural extension
2	4	Animal Husbandry, Dairying & Poultry
3	5	Fisheries
4	9	Khadi, Village & Cottage Industries
5	11	Drinking Water
6	13	Roads, Buildings, Culverts, Bridges, Ferries, Waterways & other means of communication
7	20	Libraries
8	21	Cultural Activities
9	23	Rural Sanitation
10	25	Women & Child Development
11	26	Social Welfare
12	29	Maintenance of Public Parks & Playgrounds
13		Transport, State Rural Employment Guarantee Scheme, IAY, SSA Construction, Gymnasium/Vyayamshala, Financial Assistance to Sportsmen

As per Section 153 of the Goa Panchayat Raj Act 1994, the VPs are vested with powers to levy and impose taxes, fees on various items. The VPs are also empowered to execute various types of works, issue of permissions, licences and control the erection of buildings, factories and other constructions within its jurisdiction. They

are also empowered to impose fines, penalties and also demolish illegal structures, buildings, remove trees.

The subjects allotted to the ZPs include taking up of developmental works like construction and repairs of rural roads, rural water supply and sanitation, minor irrigation schemes, repairs and maintenance of cottage hospitals and rural health centers, conducting training programmes for farmers, etc. They have no power to levy any taxes or fees. They solely depend upon the Administrative Grants and Rural Infrastructure Developmental Grants from the Government.

The State Government had set up two Finance Commissions (FC) to review the financial position of Local Bodies. The second FC was set up in August 2005. The Commission was required to submit the recommendations within a period of three months during which it had to thoroughly examine the devolution of functions along with funds to the ZPs and VPs. The Commission submitted its report in December 2007.

The SSFC has recommended devolving of all the 28 Functions and 74 Activities to VPs and 25 Functions and 47 Activities to ZPs for economic development and social justice as listed in the Ist & IInd Schedules respectively of the Goa Panchayat Raj Act 1994. Some of the important recommendations are:

- Devolution of all the core functions to the PRIs
- Activation of District Planning committees
- Adoption of revised accounting formats designed by CAG to be made operational from 1-4-2008
- Write-off of loans of weaker Panchayats
- Assignment of two per cent of State's own revenues to PRIs
- Provision of staff for capacity building of PRIs
- Training to staff in information technology to enable computerized accounting and database of finances.

The Government is yet to consider the recommendations of the SSFC.

### 1.3.1 Transfer of Functions

It was observed that none of the functions devolved to the ZPs were actually transferred to them. Out of the functions transferred to the VPs, construction of internal roads, drinking water, rural sanitation, maintenance of parks and playgrounds, etc. were being traditionally performed by them. Therefore the transfer of functions in these cases was only a formalization of existing arrangements. Out of the remaining functions, Cultural activities, Women and child development, Social welfare, Community development schemes including the centrally sponsored schemes are now being performed by the VPs for which funds are sanctioned by the Director of Panchayats/District Rural Development Agency based on specific proposals from the VPs. These functions are not being performed directly by the Government now.

### 1.4 Transfer of Funds

In view of their meagre financial resources, the Government of Goa sanctions grants-in-aid to the VPs/ZPs in the State for financing development works, administration expenses, matching grants, compensation in lieu of Octroi, etc. During the year 2006-07, the amount of grants-in-aid released to the ZPs and VPs (including the amount received from the Centre) was Rs 7.40 crore and Rs 23.23 crore respectively.

The details of own revenue and Grants-in-aid for the years 2004-05 to 2006-07 are given below:

*(Rupees in lakh)*

Year	ZPs		VPs	
	Own Revenue	Grants-in aid	Own Revenue	Grants-in aid
2004-05	4.55	637.19	900.76	1811.46
2005-06	11.16	680.00	1148.01	2088.65
2006-07	12.00	739.99	1661.19	2322.50

*Note: Grants-in-aid include grants received from Central as well as State Government.*

### 1.5 Transfer of Functionaries

The Government of Goa has provided one VP Secretary to each VP whose salaries and allowances are paid directly by the Government. The VPs have also employed

their own staff like clerks-cum-typists and peons. The State Government has undertaken to sanction grants to economically weaker Panchayats from 1-4-2001 in order to enable them to make payment of the salaries and dearness allowance to the staff employed by them.

As far as ZPs are concerned, the Government has appointed a Sr. Grade Officer of the Goa Civil Service in each ZP as the Chief Executive Officer. The Government has also appointed an officer of the cadre of Deputy Director of Accounts as an Accounts Officer in each ZP. Other functionaries like Stenographers, Accountants, Clerks, Peons, Sweepers and Drivers have also been provided to each ZP. The services of Executive Engineers, Assistant Engineers and Junior Engineers from the PWD of the State have been placed at the disposal of the ZP for execution of technical works like preparation of estimates of different works, recording of measurements, tendering of works and preparation of running account bills.

### 1.5.1 Financial Position of ZPs and VPs

The Financial position of the two ZPs and 189 VPs as per their accounts and information furnished by DoP for the period 2004-05 to 2006-07 was as follows:

*(Rupees in lakh)*

Year	Receipt			Expenditure			Surplus/ Deficit
	ZPs	VPs	Total	ZPs	VPs	Total	
2004-05	641.74	2712.22	3353.96	148.37	2633.06	2781.43	572.53
2005-06	691.16	3236.66	3927.82	1065.00	2219.00	3284.00	643.82
2006-07	751.99	3983.69	4735.68	810.32	4712.76	5523.08	(-)787.40

### 1.5.2 Grants-in-aid by State/Central Government

The grants-in-aid paid by the State government (including that received from Centre) to the PRIs increased from Rs 24.49 crore in 2004-05 to Rs 30.62 crore in 2006-07.

### 1.5.3 Recommendations of the Second State Finance Commission

The SSFC has recommended an amount of Rs 722.81 crore for the 21 Core functions as well as Rs 1131.03 crore for 17 Consultative functions for VPs and Rs 284.51 crore

for 10 Core functions and Rs 459.61 crore for 11 Consultative functions for ZPs for a period of five years.

The SSFC has also recommended the creation of following posts in various offices, which will entail an annual expenditure of Rs 11.03 crore.

Sr. No.	Name of Office	No. of Posts
1.	Directorate of Panchayats	603
2.	ZPs	21
3.	District Rural Development Agency	19
4.	District Planning Committee	13
5.	Town & Country Planning Department	10
6.	Animal Husbandry	06
7.	Agriculture Department (Soil Conservation)	03
8.	Health Services	06

The Government is yet to consider the report, which was submitted in December 2007.

### **1.6 Audit coverage**

By virtue of Section 194 of the Goa Panchayat Raj Act, the Comptroller and Auditor General of India is the sole auditor for ZPs. The audit is conducted under Section 20(1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. The records of North Goa ZP for the years 2002-03 and 2003-04 and South Goa ZP for the year 2005-06 were test checked during the period under audit. The audit for subsequent years could not be taken up due to non finalisation of the accounts for these years.

The Director of Accounts is the statutory auditor of VPs under Section 187 of the Goa Panchayat Raj Act. The audit of all the VPs was carried out upto the year 2006-07 by the Director of Accounts.

As per the guidelines issued by the Ministry of Finance, Government of India, on the recommendations of the Eleventh Finance Commission (EFC), the State Government, in November 2006, entrusted Technical Guidance & Supervision (TGS) over accounts and audit of PRIs to the CAG. Accordingly, in respect of eight VPs audited by the Accountant General for the year 2005-06 under TGS certain shortcomings in the VPs such as Loss of interest, Discrepancies in service records, Non-recovery of rent, Non-



preparation of Annual Development Plan, etc. not reported in the Audit Reports of the Director of Accounts were communicated to them in July 2007. Further, a training programme for the accounts staff of PRIs was also conducted under TGS in January 2008.

In addition, the audit of receipts and expenditure of local bodies or authorities financed by way of grants/loans from the Government also comes under the purview of CAG in terms of sections 14 and 15 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **1.6.1 Internal Control/Audit**

It was observed that there was no internal audit set up in the North Goa and South Goa ZP. The transactions of the Office were not checked from time to time by any person other than the Accounts staff who actually pass the bills for payments. The records were also not inspected by the Inspection staff of the Director of Accounts even though substantial grants were paid to the Zilla Panchayats by the Government of Goa.

It was stated by the Director of Panchayat that no internal audit section could be set up due to shortage of staff.

### **1.6.2 Impact of audit, response to audit**

Consequent to audit observations during the previous year regarding non-submission of Utilisation Certificates (UCs) by the VPs, the Director of Panchayats, under directives from Finance Department, Government of Goa (May 2007), issued a circular in June 2007 instructing the Block Development Officers to expedite utilisation of the grants sanctioned and submission of UCs. Further, the recovery of revenue arrears has also improved. The arrears of VPs which was Rs 16.11 crore as on 31.03.2006 have come down to Rs 10.50 crore as of 31.03.2007.

Response to Audit Paras was lukewarm as replies to 91 paras pertaining to the period from 2001-02 to 2006-07 were outstanding as of December 2007 from DoP/Dy. Director of Panchayat (South Goa).

## **2. ACCOUNTING PROCEDURES**

### **2.1 Format of Accounts**

The 'Guidelines for utilization of Local Bodies Grants Recommended by EFC' issued by MoF, GOI in June 2001, provided that the format for preparation of budgets and accounts for the local bodies shall be as prescribed by the CAG. The State Government is yet to adopt the formats prescribed by the CAG. The revised accounting formats were sent for publication in February 2008.

ZPs are preparing accounts in the format laid down under section 191 of the Goa Panchayat Raj Act, as they are yet to adopt the format prescribed by the CAG. While the ZP (South) had finalized their accounts upto 2004-05, ZP (North) had finalised them upto 2003-04 as of March 2008.

VPs are preparing accounts in the format laid down under Section 184 of the Goa Panchayat Raj Act, 1994. The accounts upto 2006-07 have been completed.

The eight draft formats prescribed by CAG for creation of database of finances of PRIs were sent to the Finance Secretary in September 2003. However, no action has yet been taken in the matter.

### **2.2 Non submission of Utilisation Certificates**

As per terms and conditions under which the grants are sanctioned, the entire amount of the grant shall be utilized within a period of one year from the date of drawal of the grant and a utilization certificate is to be submitted to the DoP/BDO by the ZPs & VPs respectively within 18 months of drawal of the grant. It is also provided that no grant shall be sanctioned unless the previous grants are fully utilized and utilization certificate furnished. Further, in the orders sanctioning matching grants, the BDOs were empowered to recover the amount of unutilized grants which was sanctioned under GIA, for more than 12 months, if any, from the defaulting VPs from the matching grants payable to them.

In spite of all the above provisions, the Directorate failed to obtain the UCs from the ZPs/VPs promptly, resulting in accumulation of unsettled amounts. It was observed

from records that utilization certificates (UCs) in respect of grants amounting to Rs 48.06 crore (some of which pertain to the period prior to 1989) were outstanding from the ZPs and VPs as on 31.03.2007. Further, the Directorate has been sanctioning additional grants without adhering to the above conditions.

It was stated by the DoP that the Circular in this connection was issued on 19<sup>th</sup> June 2007 directing all the BDOs to strictly follow the guidelines regarding prompt utilisation of the grant, refund of unspent grants, etc., as provided in G.F.R. 151(1). It was further stated that funds not utilized within the stipulated period should be refunded to Government immediately and in case of failure to refund the grants to Government, action would be taken to adjust the amount against the matching grants. The progress of outstanding UCs was being reviewed and efforts were being made to obtain the UCs by BDOs from concerned VPs.

### **2.3 Non utilization of Finance Commission Grants**

The First installment of XIIth Finance Commission (TFC) Grants for 2005-06 amounting to Rs 1.80 crore was released to the State Government on 3 January 2006 and after including the unutilised grants released during EFC period amounting to Rs 4.63 crore (now considered as part of TFC grants), the total amount of PRI grants available with the state Government to be utilized worked out to Rs 6.43 crore. Accordingly, as on 30 September 2007 the Directorate had accorded sanction for incurring the expenditure of Rs 119.25 lakh as follows.

1. Water supply Rs 29.89 lakh
2. Sanitation Rs 50.07 lakh
3. Database Rs 39.29 lakh

Details of UCs for the above grants were not furnished to audit (March 2008).

The total amount of grant receivable during 2005-06 and 2006-07 was Rs 7.20 crore (@ Rs 3.60 crore per year). After adjusting Rs 1.80 crore released in January 2006 and Rs 4.63 crore pertaining to EFC grants the balance amount of Rs 0.77 crore was also released to the State Government on 17 July 2007. Of this, Rs 4.63 crore was released to VPs by the DoP on 26 March 2007 and Rs 0.77 crore to ZPs on 20 August

2007 being the 2<sup>nd</sup> Installment of 2005-06 and 1st and 2<sup>nd</sup> Installment of 2006-07. The dates on which these funds were actually credited in the bank accounts of the VPs/ZPs have not been furnished by the DoP.

Further, even though the project proposals for utilisation of funds as per the objectives of the TFC were prepared by the Director of Panchayats (DoP) identifying the Schemes for which the funds are to be utilised, the DoP has accorded approval for Schemes worth Rs 119.25 lakh only leaving a balance of Rs 600.75 lakh with the VPs/ZPs. Further proposals from the VPs/ZPs were not received.

#### **2.4 Arrears of revenue**

As per the information furnished by the DoP, an amount of Rs 10.50 crore was yet to be recovered as of November 2007 on account of various Taxes/Rent pertaining to VPs in Goa. Even though the Finance Department, Government of Goa, had in May 2006 issued directives to the DoP to evolve a suitable mechanism to improve the revenue collection of the VPs, the position of outstanding revenue still remains substantial.

### **3. Implementation of Schemes**

The Government of Goa sanctions grants-in-aid to the VPs in the State for financing development works in their respective areas. The Schemes undertaken by the PRIs as part of the development works include construction and repairs of drinking water wells and tanks, rural roads, public toilets, bus stands/shelters, playgrounds, etc.

#### **3.1 Sanction of grant of Rs 3.31 crore to 25 non-entitled Village Panchayats and depriving grant in aid to other 44 Village Panchayats**

In pursuance of sub-section (1) of section 160 of the Goa Panchayat Raj Act, 1994, the Government releases grants in aid to the VPs for various purposes<sup>1</sup> under the terms and conditions prescribed by Government from time to time. The VPs whose annual income is less than Rs 5.00 lakh only are entitled to the grant in aid for development works. The Director of Panchayats had sanctioned grants in aid totaling

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<sup>1</sup> Construction and maintenance of village roads, drains, culverts, drinking water wells, tanks, ponds, public springs, rural water supply schemes, lighting of public places, burial grounds, general sanitation, public latrines, slaughter houses, parks, cattle ponds sheds, village libraries, bus stands, taxi stands, sports infrastructure, disposal of unclaimed corpse, prevention and control of water pollution.

Rs 7.82 crore for various developmental works to 75 VPs out of 189 VPs in the state during the year 2006-07.

A scrutiny (November 2007) of records of Director of Panchayats revealed that the department sanctioned grants totaling Rs 3.31 crore to 25 VPs whose annual income was above Rs 5.00 lakh. Of these 25 VPs, the Shiroda VP alone was sanctioned grant in aid to the tune of Rs 1.03 crore which constituted 13 per cent of the total grant sanctioned by the Government to all VPs. Whereas no grant was sanctioned to 44 VPs whose annual income was less than Rs 5.00 lakh.

The disparity in sanctioning grants in aid indicated that grants were sanctioned arbitrarily and not based on any laid down criteria with a view to achieve overall development. The arbitrary allotment of grant in aid disregarding the eligibility criteria has resulted in release of inadmissible grants to the tune of Rs 3.31 crore and depriving grants to 44 VPs whose annual income was less than Rs 5.00 lakh.

### **3.2 Idle equipment and blocking up of funds amounting to Rs 27.27 lakh**

The DoP procured (October 2004) five Garbage Compactors at a cost of Rs 68.17 lakh under the Garbage Disposal Scheme, 2005 and placed them at the disposal of SGZP (2 numbers) and NGZP (3 numbers), in November 2005.

Audit observed that the SGZP had no exclusive area under its control, where these compactors could be deployed and the compactors were supplied without any demand from the SGZP. Consequently, the two compactors were not put to use and were lying idle for over two years. SGZP informed (January 2008) that Government approval was obtained for placement of the two compactors at the disposal of Margao Municipal Council. Similarly, NGZP had returned the three compactors after six months without using them and these compactors were subsequently issued to three VPs.

Audit also observed that though the Garbage Disposal Scheme, 2005 was notified in January 2005, the DoP had procured five compactors in October 2004 itself. Thus the compactors were idle for one year before they were allotted to the SGZP & NGZP in November 2005. Further, the Garbage Disposal Scheme provided that the Scheme

shall be strictly implemented by the VPs. Therefore there was no justification for allotting the Compactors to the SGZP & NGZP.

The procurement of these compactors without any demand from the proposed users and consequent non utilization resulted in the equipment (2 compactors) lying idle and blocking up of funds amounting to Rs 27.27 lakh for over three years.

#### **4. Other points of interest**

##### **4.1 Short release of grants in lieu of Octroi**

A reference is invited to Para 4.4 under Chapter I.

The allotment of funds for a year was to be made based on the amount of additional sales tax collected during the previous year. However, the details of amount collected as two per cent additional Sales Tax during 2005-06 were not available with the DoP.

It was observed in audit that during the year 2006-07 the DoP released only Rs 3.75 crore for VPs and did not release any grants to ZPs. In the absence of tax collection figure for 2005-06, had the grants been released on the basis of figures available for 2004-05 (which was Rs 19.16 crore) the ZPs and VPs should have been allotted Rs 4.79 crore and Rs 7.19 crore respectively. Hence, there was a short release of Octroi grants to ZPs/VPs to the tune of Rs 8.23 crore.

The Department, while accepting the audit observation, stated (November 2007) that all possible efforts to obtain the details from Sales Tax department & Petroleum Companies were made and the matter was placed before the Government.

##### **4.2 Compliance of Inspection Reports of Director of Accounts**

Scrutiny of accounts of eight VPs\* revealed that 204 paras pertaining to the period 1970-71 to 2004-05 in Inspection Reports of Director of Accounts were outstanding as on 31 March 2006. Even though it was stated (June 2007) that the Panchayats were regularly complying with the observations no correspondence in this connection was shown to audit.

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\* *Querim, Surla, Taleigao, Calangute, Borim, Tivim, Chinchinim & Cotigao.*

#### **4.3 Outstanding Loans and Interest under Remunerative Scheme of VPs as on 31.3.2006**

An amount of Rs 158.17 lakh was outstanding (Rs 48.25 lakh Principal and Rs 109.92 lakh Interest) as on 31 March 2006 from VPs being loans paid under Remunerative Scheme and interest thereof. Year-wise break-up of outstanding loans, reasons for non-recovery of the same and efforts/action taken to recover the outstanding loans as per the provisions of Panchayat Raj Act, 1994 were not furnished by the Directorate of Panchayats.

#### **5 Recommendations**

- **The revised accounting formats prescribed by CAG should be expeditiously adopted.**
- **Norms for distribution of grants to ZPs/VPs should be formulated and scrupulously adhered to so that there is no disparity in sanctioning grants.**
- **UCs in respect of TFC grants received during 2005-06 and 2006-07 should be submitted at the earliest.**
- **The details regarding Sales Tax collected during 2005-06 and 2006-07 should be obtained from the concerned authorities so as to avoid short release of grants in lieu of Octroi.**

**(Y.N. Thakare)**  
**Accountant General**