

PART – II PANCHAYATI RAJ INSTITUTIONS

CHAPTER – I

OVERVIEW ON FINANCES INCLUDING THE ACCOUNTING PROCEDURES OF THE PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

A three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh Panchayati Raj Aivam Gram Swaraj Adhiniyam (Act), 1993. (MPPRGSA) which came into force from January 1994.

At present there are 48 ZPs, 313 JPs and 23051 GPs in the state. The last general elections for the Gram Panchayats were held during 2004-05.

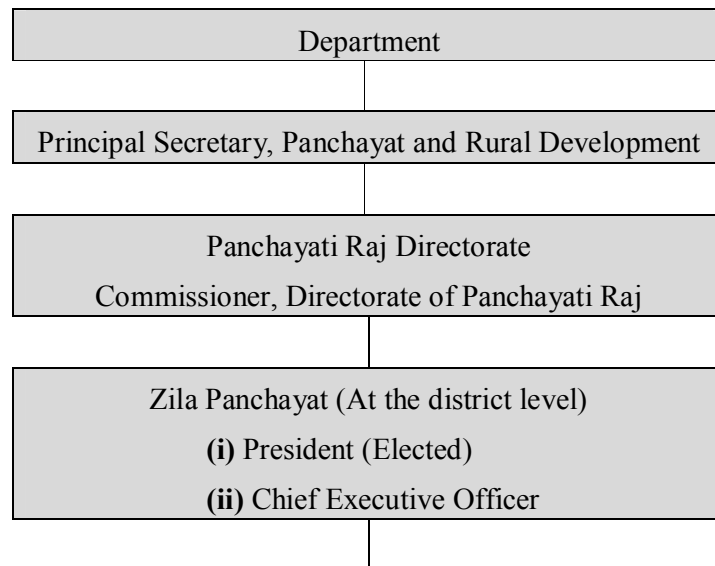
1.2 Area and Population

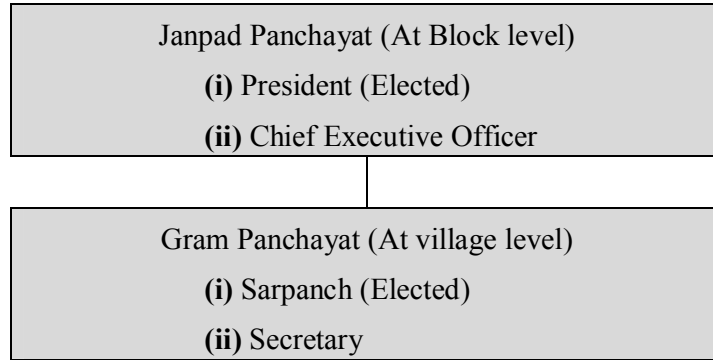
Total areas (3,08,000 sq. km.) of the state was covered by 4.51 crore of rural population being 75 per cent of the total population of 6.03 crore as per 2001 census. Of this, 0.90 crore (15 per cent) and 1.21 crore (20 per cent) were Schedule Caste and Schedule Tribes.

1.3 Administrative arrangements

All the PRIs are distinct legal authorities to discharge the functions devolved under the provisions of Acts and Rules subject to monitoring powers vested in state authorities provided there in. The organisational structure of the Department, at District, Block and Village level is given below.

Organisational Chart of PRIs





1.4 Accounting arrangements

1.4.1 Amendment in the Act

As per recommendations of the Eleventh Finance Commission (EFC), audit of accounts of Panchayati Raj Institutions has been entrusted to Director / Commissioner Local Fund Audit (DLFA) and Comptroller & Auditor General (C&AG) of India with the Technical Guidance and Supervision (TGS) of maintenance of accounts and conduct of audit by the State Government in November 2001. But PRIs' Acts were neither amended to empower the CAG nor positive response was received even after regular correspondence with the Panchayati Raj Directorate (PRD). The matter was discussed in the meeting (November 2008) held with Principal Secretary, Finance Department for inclusion of provision of TGS in concerning Act & Rules who assured that suitable action would be taken after consulting practices of other states.

1.4.2 Annual Accounts

As per Rule 63 of M.P. Panchayat Raj Aivam Gram Swaraj Adhiniyam, 1993 the Secretary of the Panchayat or in his absence, such other persons as may be authorised in his behalf, by the General Administration Committee, shall prepare the Annual Accounts as prescribed in Rule 62 and place before the General Administration Committee, for consideration and approval, by 30th day of April each year. During test check of records of ZP Mandasaur (30 GPs), Ratlam (35 GPs) and Neemuch (7 GPs) it was seen that no such Annual Accounts were prepared by the test checked GPs.

1.5 Audit arrangements

The State Government had consented for audit of PRIs by Comptroller & Auditor General (C&AG) of India under Technical Guidance and Supervision (TGS) in November 2001. Accordingly the office of the Senior Deputy Accountant General Local Body Accounts and Audit is conducting audit of PRIs under TGS module.

1.6 Approval of audit plans

The DLFA was required to prepare the audit plan in consultation with the Principal Accountant General (PAG) to include selection / rotation of units number of units to be test checked by AG (20 percent), audit party composition and their deployment. The AG would approve the audit plan as a part of the TGS arrangement. However, in spite of request to the Government (February-November 2008), the audit plan of DLFA were never got approved from the PAG. DLFA agreed to submit audit plan of 2009-10 to PAG for consultation /approval.

1.7 Constitution of State Legislature Committee

The EFC recommended that the report of C&AG relating to audit of accounts of PRIs was to be placed before a Committee of the State Legislature constituted on the same lines as Public Accounts Committee. In spite of request by the PAG to the Government, the Committee was yet to be constituted (December - 2010). Government, stated that it intends to include other class of local bodies within the purview of this class and is contemplating to amend M.P. Vidhan Sabha conduct of business rules.

1.8 Source of revenue

There were mainly two sources of funds for Local Bodies (i) Government grants and (ii) own revenues. Government grants comprise of (a) funds released by the State Government and Government of India (GOI) based on the recommendation of State Finance Commission (SFC), Twelfth Finance Commission (TFC) (b) GOI and State share released for various central and State sector schemes. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them.

1.9 Receipts and expenditure of PRIs

1.9.1 Non preparation of Annual Action plan

As per recommendation of 1st State Finance Commission (SFC) an annual action plan should be prepared at district level in respect of three tier of PRIs and should be monitored regularly by district authorities.

During test check of 4 districts¹ it was seen that a District Planning Committee comprising of district level representatives of various departments of the State Government was constituted in every district. The district annual action plan was prepared without calling for grass root level i.e. Gram Panchayat level annual action plans. Therefore equal distribution of resources upto Gram Panchayat level could not be assured. Preparation of decentralized annual action plan in respect of three tier of Panchayati Raj Institutions to ensure equal distribution of resources is needed.

¹ Gwalior, Mandsour, Neeemach and Ratlam.

Funds (Share of tax revenue of the state, schemes and grants etc.) allocated to PRIs by the State Government through budget including GOI's share of the schemes and grants recommended by EFC & TFC were as under:-

(` in crore)

Sl. No.	Grants in aid					Actual Expenditure			Excess (+)/ Saving (-)	
	Year	Share of Tax	Scheme funds	Grant	Pay & Allowance of Directorate	Total	Revenue	Capital		Total
1.	2005-06	130.25	244.43	1583.25	0.03	1957.96	1832.67	6.63	1839.30	(-) 118.66
2.	2006-07	19.30	245.63	2455.10	0.37	2720.40	2241.73	0.04	2241.77	(-) 478.63
3.	2007-08	176.12	239.49	2823.72	0.06	3239.39	2999.92	3.03	3002.95	(-) 236.44
4.	2008-09	174.30	415.21	3391.58	6.39	3987.48	3125.25	0.03	3125.28	(-) 862.20

It can be seen from the table that the budget provisions increased by 47 per cent during the year 2008-09 as compared to 2006-07 but the PRIs could not spend the amount, resulting into substantial saving from 2006-07 to 2008-09. The details of receipts of revenue and expenditure thereagainst in all PRIs were not being maintained at the PRD level. On being enquired, PRD replied (Sept. 2009) that the same would be collected and furnished to audit.

1.9.2 State Finance Commission (SFC)

The FD accepted (March 2005) the recommendation of second SFC for devolution of 2.93 per cent of 90 per cent of the State's own tax revenue to PRIs. The position of grants released to PRIs through state budget during 2005-06 to 2008-09 were as under:

(` in crore)

Year	Amount of own tax revenue of the state		Amount of share of own tax revenue to be allocated as per prescribed percentage (i.e. 2.93%)	Amount of share of own tax revenue (SFC grants) released to PRIs	Short fall (with percentage)
	Total	Net (After deduction of 10%)			
1	2	3	4	5	6
2005-06	9115	8203.50	240.36	207.91	32.45 (13)
2006-07	10473	9425.70	276.13	208.70	67.43 (23)
2007-08	12018	10816.20	316.91	243.00	73.91 (23)
2008-09	13614	12252.60	359.00	226.00	133 (37)

Reasons for shortfall were called for, reply from FD was awaited (December 2009)

The devolution of funds under recommendations of SFC were meant to cover the tasks of basic services, vis-à-vis development of water supply and sanitation etc. The shortfall in release of funds to PRIs from 2005-06 to 2008-09 resulted in less availability of funds with them for the purpose envisaged by SFC.

1.10 Position of Outstanding audit paragraphs:

As of March 2009, the number of outstanding audit paragraphs of PRIs included in the Inspection Reports (IRs) of DLFA excluding those of Gwalior region was 94703 Similarly the number of outstanding paras of AG's Inspection Reports was 11236 on the date. Details of outstanding paragraphs were as under:

(A) Outstanding audit paragraphs of DLFA

(As on 31 March 2009)

Sl. No.	Financial Year	PRI			
		Total No. of outstanding audit paragraphs	Addition	No. of paragraphs settled	No. of paragraphs Outstanding
1.	2006-07	87601	7250	12494	82357
2.	2007-08	82357	4502	10416	76443
3.	2008-09	76443	21151	2891	94703

(B) Outstanding audit paragraphs of AGs Inspection Reports.

(As on 31 March 2009)

Sl. No.	Financial Year	PRI			
		Total No. of outstanding audit paragraphs	Addition	No. of paragraphs settled	No. of paragraphs Outstanding
1.	2006-07	2824	3029	Nil	5853
2.	2007-08	5853	3877	07	9723
3.	2008-09	9723	1544	31	11236

Even after vigorous pursuance with the Finance Department, no audit committee was constituted in the State to discuss and settle the outstanding paragraphs resulting in large number of audit paras being left unsettled.

1.11 Non-refund of unspent balances of closed/non-operational schemes

As per guidelines of the schemes and instructions contained in the sanction by the Government the unspent balances of closed and non-operational schemes/programmes should be refunded to the concerned department. Test check of records of Eight PRIs revealed that as sum of ` 1.17 crore pertaining to various closed/non-operational schemes were lying in the bank account and not refunded to the Departments, as shown in the **Appendix- XIII**.

This resulted not only in blocking of funds but also in depriving the rural population from intended benefits.

1.12 Outstanding advances against individuals/executing agencies

Rule 49 of Madhya Pradesh Janpad Panchayat (Lekha Niyam), 1999 provides that advances for office expenses and transportation given to individuals/executing agency (Sarpanchs/ Pradhans/Officials etc.) should be got adjusted immediately after incurring such expenditure, failing which the entire amount of advance should be recovered from the next salary or sums payable to them.

Test check of records of five PRIs revealed that in contravention/violation of the above provision, a sum of ` 14.24 lakh was outstanding against individuals /executing agencies ranging from three to five years and more as shown in **Appendix -XIV**.

1.13 Bank-reconciliation statement not prepared

Rules 25-26 of Madhya Pradesh, Janpad Panchayat Lekha Niyam 1999, provides that the reconciliation of any difference between the balances of cash book and bank accounts is required to be conducted every month. However, it was noticed that the difference of cash balance of ` 5.25 crore between Cashbook and Bank statement at the close of the year (2007-08) was not reconciled by 22 PRIs as shown in the **Appendix -XV**. Due to non-reconciliation of cash balance, possibility of embezzlement of funds could not be ruled out and the authenticity of cash balance of PRIs in the cashbook also remained doubtful in the absence of reconciliation with bank statement.

1.14 Conclusion

Annual Accounts were not prepared by the PRI regularly. Details or receipts and expenditure of PRIs were not compiled at the State level. Approval of PAG on audit plan was not obtained by DLFA as envisaged under TGS module. The State Government has not formed a State Legislature Committee for discussion of CAG's Audit Reports on Local Bodies.

1.15 Audit findings on release and utilisation of Twelfth Finance Commission's grants of PRIs

1.15.1 Delay in transfer of grant to PRIs and non payment of interest of delayed transfer

According to para 6.1 and 6.4 of GOI guidelines on TFC grant States have to mandatorily transfer the grants released by the Centre to the PRIs within 15 days of its credit into the State Governments account. In case of delayed transfer of grant to PRIs beyond specified period of 15 days, the State Government was required to pay interest to PRIs at the rate equal to the RBI rate along with such delayed transfer of grants.

Scrutiny of records of the FD revealed (September 2009) that the GOI released the first and second instalment of ` 332.60 crore (first ` 166.30 and second ` 166.30 crore) for the year 2008-09 on 07 October 2008 and 28 April 2009 respectively and credited into State Government's account on the same date. Bank accounts of PRIs were test checked in audit. The test check in 266 Gram Panchayats (GPs) (September to December 2009) revealed that there were delays of 15 to 338 days (beyond specified period of 15 days) in transfer of grants of ` 3.92 crore² to their respective bank accounts. As per GOI guidelines and also as per past practice, the FD was required to issue a financial sanction for interest @ 5% for the delayed transfer of grants to PRIs bank accounts during the year 2008-09.

The State Government has already paid interest ` 1.64 crore to PRIs for delayed transfer of first instalment for 60 days (Excluding 15 days) but no interest was paid yet for further delayed transfer in to GPs bank accounts for year 2008-09.

² ` 3.92 crore (first instalment ` 1.95 crore and second instalment ` 1.97 crore)

On being pointed out regarding payment of interest for delayed transfer of grants (December 2009) no reply was furnished so far by FD as well as PRD.

1.15.2 Expenditure incurred without preparation of Self of Project by GPs

According to para 4.1.3 States TFC guideline (Revised 2006) each GPs should prepare an Annual Work Plan (Shelf of project) with the approval of Gram Sabha. Gram Panchayats should send a copy of self of project to Janpad Panchayat and Zila Panchayat for information and thereafter GPs would execute work as per project accordingly.

Scrutiny of records of 159 GPs of six districts³ revealed that an expenditure of ` 2.08 crore was incurred without preparation of Annual Work Plan. For this omission the GPs stated that they were not aware of such guidelines and instructions.

1.15.3 Non recovery of pending user charges

As mentioned in the para 3.1 (XII) GOI guidelines, of TFC grant the PRIs should, recover at least 50 per cent of recurring costs in the form of user charges. As per revised guidelines of State Government (para 4.2.1.1), recovery of user charges was to be made from the consumers of water connections under the Water Supply Scheme of “Naljal”.

Scrutiny of records of 77 GPs of six districts⁴ revealed that the amount of ` 0.39 crore was pending for recovery from the consumers of 15271 water connections. The reasons for pending recovery of user charges were attributed to lack of interest/ non cooperation of the representatives of public. GPs (September to December 2009) have, however, stated that recovery of user charges would be made.

1.15.4 Social Audit not conducted

As per para 13 of the state guidelines of TFC grant (Revised 2006) Social Audit of each construction and development work was to be conducted mandatorily by the Gram Sabhas (Village Assemblies). Scrutiny of records of 160 test checked GPs of five districts⁵ revealed that the Social Audit was not conducted by the concerned Gram Sabhas for want of instructions, lack of knowledge and work load etc.

1.15.5 Database formats on finances of PRIs not developed

According to recommendations of Eleventh Finance Commission (EFC) the data on finances of PRIs needs to be collected, compiled and maintained in standard formats as prescribed by C&AG. However, database formats have not been developed. As per UCs, the entire TFC grants amounting to ` 332.60 crore which included ` 14.16 crore for maintenance of accounts and creation

³ Dhar, Jabalpur, Jhabua, Sagar, Satna & Ujjain.

⁴ Dhar, Jabalpur, Jhabua, Sagar, Satna & Ujjain.

⁵ 160 GPs (Jabalpur 29, Jhabua 56, Sagar 33, Satna 09 and Ujjain 33).

of database received for 2008-09 stated to have been utilised in the JPs/GPs on the specified purpose. But the database of finances in the formats prescribed by C&AG was not yet created in any of the test checked JPs/GPs in five districts⁶.

1.16 Irregularities noticed in implementation of other schemes

1.16.1 Incomplete works under SGRY

Test check of records in 11 JPs revealed that 750 works taken up under various schemes including SGRY were lying incomplete from 2001-02 onwards on after incurring on expenditure of ` 791.43 lakh as detailed in **Appendix –XVI**. Due to non completions of works, the intended benefit of the assets could not be provided to the beneficiaries. Further, the possibility of deterioration of these assets can not be ruled out with the passage of time.

1.16.2 Irregular allotment of houses to the male beneficiaries under Indira Awas Yojna (IAY)

According to Para 6 of the guidelines of IAY issued by Government of India (GOI) and para 5.5 of the guidelines issued by Government of Madhya Pradesh, the allotment of Plots and Awas should be made in name of unmarried woman or widow in the family or in the joint name of husband and wife.

Test check of records of 14 JPs revealed that 5249 Awas costing ` 1049.87 lakh as shown in **Appendix -XVII** were allotted to male beneficiaries in violation of the provisions of the Yojna.

Date: 30 March, 2011
Place: Gwalior

(J.R. Meena)
Dy. Accountant General
(Local Bodies)
Madhya Pradesh

Countersigned

Date: 04 April 2011
Place: Gwalior

(B.R. Khairnar)
Principal Accountant General
(Civil and Commercial Audit)
Madhya Pradesh

⁶ Jabalpur, Jhabua, Sagar, Satna and Ujjain