

## **CHAPTER- I**

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

#### **1.1 Introduction**

In conformity with the 73<sup>rd</sup> Constitutional Amendment Act, a three tier system has been established in the State for enactment of powers of PRIs and to facilitate people oriented developmental activities. At present 30 ZPs, 314 PSs and 6234 GPs are functioning in Orissa. Election to the PRIs was last conducted in February 2007.

State Government through legislation amended the laws relating to the three tiers of Panchayati Raj Institution (PRIs). The PRIs in the State of Orissa are regulated by the Orissa Zilla Parishad Act, 1991 (OZPA) at district level, Orissa Panchayat Samiti Act, 1959 (OPSA) at block level and Orissa Gram Panchayat Act, 1964 (OGPA) at village level. The PRI system comprises elected bodies – Gram Panchayat (GP), Panchayat Samiti (PS), and Zilla Parishad (ZP) constituting three tiers in the State.

The Comptroller and Auditor General of India (CAG) was entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit of all the three-tiers of PRIs as recommended by the Eleventh Finance Commission (EFC) and accordingly the State Government entrusted responsibility for providing Technical Guidance and Support (TGS) to the CAG under section 20(I) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971. Audit of all PSs and ZPs are being conducted under Section 14 and 20 per cent of GPs from September 2003 under section 20(1) of the CAG's (DPC) Act 1971.

#### **1.2 Organizational Set up**

The PRIs function under the administrative control of the Panchayati Raj (PR) Department headed by the Commissioner-Cum- Secretary and assisted by the Director (PR) and the Director (Special Projects) at the State level.

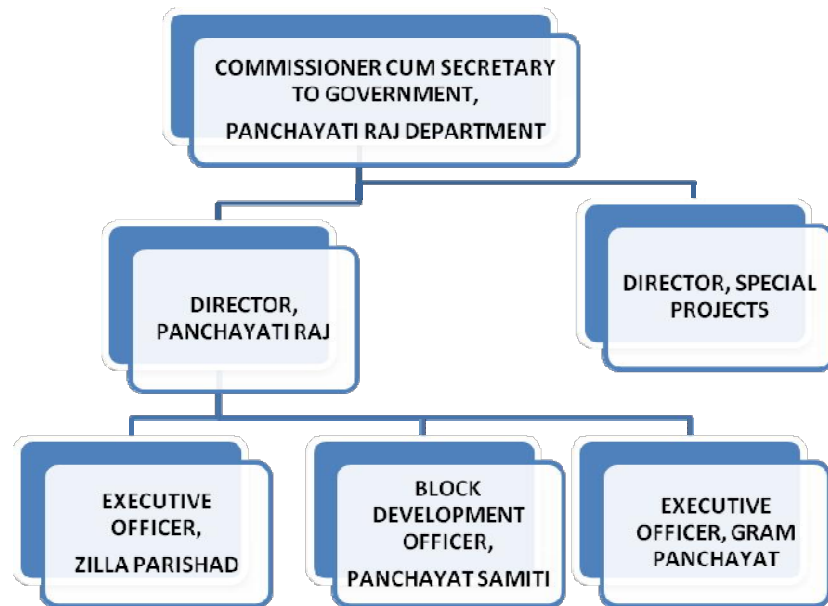
The State has 30 districts and each district has a Zilla Parishad. The ZP is controlled by an elected body headed by a President, who is elected from among the elected representatives of the ZP. The District Collector is designated as the Chief Executive Officer (CEO). Under the CEO, one Executive Officer (EO) is working to assist the day-to-day administrative functions of the ZP.

The PS functioning at the Block level is controlled by an elected body headed by a Chairman duly elected from among the elected representatives of the Block and the Block Development Officer (BDO) is the executive head. One additional Block Development Officer (ABDO) has been posted to assist the BDO in administrative matter.

At the GP level, the elected members headed by a Sarpanch constituted the GP. The State Government by legislation has declared the Village Level Worker (VLW) as the Executive Officer and entrusted the general superintendence and overall control of the GP who discharges his duties under the supervision of the District Panchayat Officer (DPO).

As of March 2009, 30 ZPs, 314 PSs and 6234 GPs were functioning in Orissa. Election to the PRIs was last conducted in February 2007.

The organizational set-up of the PRIs is indicated below.



The Elected Body set-up of the PRIs is as follows: -



### 1.3 Source of fund

The main sources of income of PRIs in the State are as follows:-

- Funds released by Government of India (GOI) under various Centrally Sponsored Plan Schemes (CSP) viz NREGS, BRGF, IAY etc.,
- Grants received from State Government as per the recommendations of State Finance Commission,
- Grants received as per Central Financial Commission recommendations,
- Funds received under State sponsored schemes like BKBK, GGY etc.
- In addition PRIs are also mobilizing resources from own sources such as taxes, rents licence fee etc.

The receipt and expenditure position of the PRIs for the last five years (2004-05 to 2008-09) are as follows.

(Rupees in crore)

Name of the Institutions	Grants in Aid					Own Source				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Gram Panchayats	875.26	533.35	553.85	454.49	286.02	-	9.85	10.12	10.43	16.18
Panchayat Samities		421.23	1166.32	1337.80	3203.23*	-	-	-	-	-
Zilla Parishads		98.48	95.98	174.20	64.62	-	-	-	-	-
<b>Total receipt</b>	<b>875.26</b>	<b>1053.06</b>	<b>1816.15</b>	<b>1966.49</b>	<b>3553.87</b>	<b>-</b>	<b>9.85</b>	<b>10.12</b>	<b>10.43</b>	<b>16.18</b>
<b>Expenditure</b>										
Gram Panchayats	802.04	523.59	477.82	379.62	292.09	-	-	-	-	-
Panchayat Samities		400.45	1229.34	1274.65	1771.71	-	-	-	-	-
Zilla Parishads		96.98	71.27	148.23	51.63	-	-	-	-	-
<b>Total Expenditure</b>	<b>802.04</b>	<b>1021.02</b>	<b>1778.43</b>	<b>1802.50</b>	<b>2115.43</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* including carry over balance of 2007-08.

As could be seen from the table, only GPs are mobilizing own sources of revenue since only they are empowered to collect various tax and non-tax revenues as per law.

## **1.4 Functioning of PRIs**

The PRIs execute various functions entrusted to them through seven Standing Committees, constituted for the purposes viz,

- Planning, Finance, Anti- poverty Programme and Co-ordination,
- Agriculture, Animal Husbandry, Soil Conservation, Horticulture, etc.
- Works, Irrigation, Electricity, Water Supply, etc.
- Health, Social Welfare, etc.
- Public Distribution System, Welfare of the Weaker Section, etc.
- Handicrafts, Cottage Industry, Khadi and Village Industries, etc.
- Education, Sports and Culture.

The overall monitoring and review of the programmes are conducted at the state level by the State Level Vigilance & Monitoring Committee (SLVMC) and at the district level by the District Monitoring and Vigilance Committees (DMVC). The SLVMC is constituted under the chairmanship of the Honorable Minister, Rural Development with three Co-Chairman and twenty nine members. In case of DMVC, the District Collector is the Chairman, with one or two Assistant Engineers, one or two Junior Engineers from Public works or Rural Development Department, Superintendent of District Local fund Audit Offices and one Officer in charge of public grievances nominated by the Collector as the members.

## **1.5 Maintenance of Accounts by PRIs**

The Executive Officer in ZP and the Block Development Officer (BDO) in PS are responsible for maintenance of various books of accounts and annual financial statements. In case of GPs, the Executive officer/Secretary maintains the accounts.

As far as GPs in Orissa are concerned, the Annual Accounts are to be prepared in forms prescribed in Rule 159 of the GP Accounting Rules. The Government of Orissa has not adopted the new formats recommended by CAG for GPs (July 2009). Despite clear provision in the Act & Rules, the GPs are not preparing the Annual Accounts in the said forms.

As far as PSs are concerned the new format prescribed by the CAG, has been accepted with effect from 1<sup>st</sup> April 2004 without making any modifications. Though it is adopted and clear directions were issued by the State Government (April 2004), majority of the PSs in the State are not preparing their Annual Accounts in the new formats.

In respect of ZPs, neither the new formats prescribed by CAG have been accepted nor specific forms are prescribed for the preparation of the Annual Accounts of

the ZP in the relevant Act/Rules. Thus, annual accounts are not being prepared by ZPs.

### 1.6 Non preparation of Budget Estimates

As per Rule 98(1) of the Gram Panchayat Act and Rule 24(1) of the Panchayat Samiti Act, the GPs and PSs shall in each year prepare and place before the Grama Sabha and Panchayat Samiti respectively for its consideration a budget estimate showing the probable receipts and expenditures for the following financial year and submit the budget to the respective elected body for its approval.

Test check of records in 40 GPs and 15 PSs out of 941 GPs and 270 PSs revealed that none of the GPs and PSs had prepared the budget estimates though ₹4.17 crore and ₹86.10 crore was spent by these GPs and PSs respectively during 2008-09. The State Government is releasing funds based on Annual Action plan submitted by the PRIs and not on the Budget Estimates, and the expenditures of the PRIs are not subjected to local budgetary control.

In the absence of the approved Budget Estimates (BE) the expenditure incurred by the PRIs was irregular and the probable receipts and expenditures for the financial year could not be ascertained and no financial control could be exercised in the GPs and PSs. The same position exists in the case of ZPs also.

### 1.7 Audit - Statutory

The Examiner Local Fund Audit (ELFA) is the Statutory Auditor of PRIs in the State. The CAG provides Technical Guidance and Support (TGS) under Section 20(I) of CAG's (DPC) Act, 1971 for the proper maintenance of accounts and audit of PRIs. The ELFA conducts audit of PSs and GPs through District Audit Officers, Audit Superintendents and Auditors.

The ELFA has not taken up audit of the accounts of ZPs since inception though it was entrusted to the ELFA vide Orissa Zilla Parishad (Amendment) Act, 2000. The audit of PSs and GPs are being carried out regularly by ELFA. The arrear position in respect of audit by ELFA is given in the following table.

Number of PRIs	Number of accounts in arrears
3227 GPs	9233
29 PSs	45

Though the accounting rules provides for Certification of Annual Accounts of PRIs by ELFA, no Certification of Annual Accounts have been done so far.

### **1.8 Audit by CAG**

The audit of PRIs is being conducted by CAG under section 14(1) & 20 (I) of CAG (DPC) Act, 1971 and the audit of the accounts of 23 ZPs, 270 PSs and 941 GPs were completed during the year 2008-09.

### **1.9 Non-clearance of objections raised by CAG**

The CAG conducts the audit of PRIs under Section 14 and 20(I) of CAG's (DPC) Act, 1971. Objections raised in audit were communicated to the respective DDOs in the form of Inspection Reports (IRs) with a copy to the Government. The objections raised in the IRs were to be attended promptly and the replies were to be furnished to the Senior Deputy Accountant General (LBA&A) along with action taken on such objections. But no compliance to these objections was submitted by the concerned DDOs as a result, IR paras remained outstanding over the years. As regards to the pendency of audit objections raised by the CAG of India, 534 paras relating to 73 ZPs and 15584 paras relating to PSs reported through 1791 Inspection Reports pertaining to the period from 2006-07 to 2008-09 and 1988-89 to 2008-09 respectively issued by Senior Deputy Accountant General (LBA & A) Orissa are pending for settlement as of March 2009. In respect of GPs 2430 IRs containing 32117 paras issued pertaining to the years 2006-07, 2007-08 and 2008-09 are pending. Year wise details of the pending positions as on March 2009 were as follows

<b>SI No</b>	<b>Particulars of PRIs</b>	<b>Period</b>	<b>No of I.Rs</b>	<b>No of Paras</b>
1	Zilla Parishad	2006-07	23	173
		2007-08	29	203
		2008-09	23	159
	<b>Total</b>		<b>75</b>	<b>535</b>
2.	Panchayat Samiti	1988-89 to 2005-06	1052	7684
		2006-07	176	2176
		2007-08	293	2922
		2008-09	270	2802
	<b>Total</b>		<b>1791</b>	<b>15584</b>
3	Gram Panchayat	2006-07	432	4329
		2007-08	1057	13048
		2008-09	941	14740
	<b>Total</b>		<b>2430</b>	<b>32117</b>

### **1.10 Audit Reports**

Three Annual Technical Inspection Reports (ATIRs) were issued to the Government for the years 2005-06, 2006-07 and 2007-08. This report is the fourth ATIR prepared by the Office of the Senior Deputy Accountant General (LBA&A) Orissa. None of the reports was discussed by the Government so far.

### **1.11 Internal Audit**

The Internal Audit System known as Common Cadre Audit (CCA) exists in 20 out of 38 Civil Departments of the Government and functions under the control of Financial Advisor of the respective Departments. No regular audit is conducted by CCA. The CCA is conducting only special audit whenever required.

### **1.12 District Planning Committees**

The State Government enacted Orissa District Planning Committee (DPC) Act, 1998 for setting up of District Planning Committees to consolidate the plans submitted by the PRIs and Urban Local Bodies (ULBs) and to prepare integrated draft development plan for the district as a whole. The Committee was also assigned the powers to review the implementation of the developmental programmes by the Local Bodies (LBs). Elected members of PRIs and ULBs in the district were to fill up 80 *per cent* members of the committee and the rest 20 *per cent* members were to be nominated by the Government. The EFC entrusted the LBs with powers for preparation of plans for economic development and social justice and implementation of need based developmental schemes for enabling them to function as institutions of self-government. The Draft District Development Plan was required to be forwarded by the Chair Person of the DPCs to State Government for approval. Despite the formation of the DPCs since 2001-02, they were not yet made functional due to absence of technical support teams and secretariat support staff for monitoring and implementation of plans even after a decade of enactment of the Act. However, Government (Planning and Coordination department) stated (May 2008) that 23 technical support institutions (TSI) were selected and assigned to different districts for preparation of district plans for the year 2008-09 as per the directives of the State Planning Commission. The TSIs were to report as per directions of Planning and Co-ordination Department and district plan 2008-09 was to be placed before DPCs by August 2008.

Test check of units by audit revealed that LBs formulated action plans for some individual schemes as a stand-alone process without having any linkage to the holistic development of the area. It lacked objectivity and vision for empowerment of Local bodies as envisaged in the Constitutional Amendment Act. Information on consolidated LB wise details of resource availability including activity wise planning of own funds, Grant in Aid, special grants, GoI

and State plan funds and position of assets and liabilities were not available either in LBs concerned or centrally at district /State level.

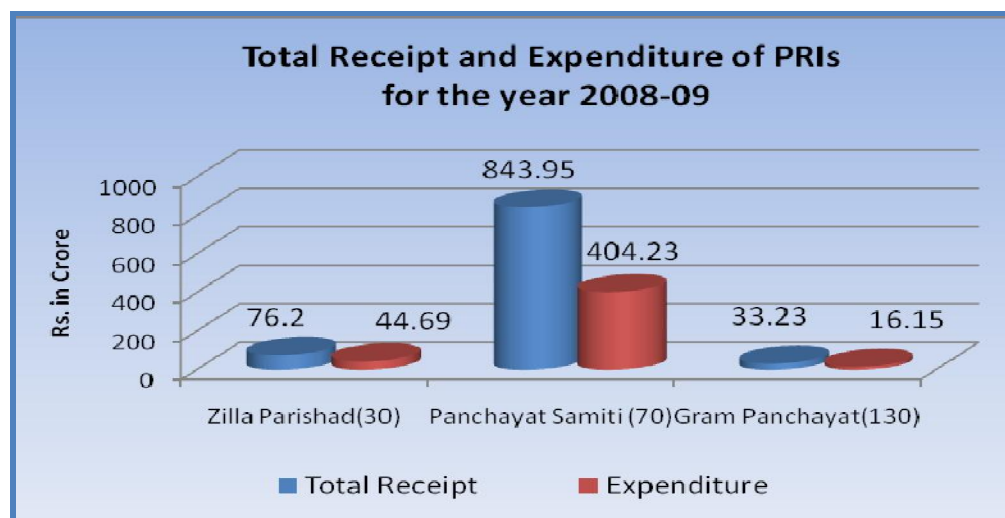
### 1.13 COMMENTS ON ACCOUNTS

#### 1.13.1 Non-utilization of Funds.

Test check of closing balances lying in the accounts of 213 PRIs for the year ended 31 March 2009 revealed that substantial amounts received for implementation of NREGA,SGRY,SGSY,BRGF etc were not utilized within the period specified as detailed under: -

(Rupees in crore)

Name of the PRIs	No of PRIs	Opening balance	Receipt during the year	Total Receipt	Expenditure	Closing Balance	Percentage of Expenditure
Zilla Parishad	13	32.40	43.80	76.20	44.69	31.51	58.64
Panchayat Samiti	70	350.84	493.11	843.95	404.23	439.72	47.89
Gram Panchayat	130	13.75	19.48	33.23	16.15	17.08	48.60
<b>Total</b>	<b>213</b>	<b>396.99</b>	<b>556.39</b>	<b>953.38</b>	<b>465.07</b>	<b>488.31</b>	



The un-utilized amount of ₹488.31 crore at the end of March 2009 indicated poor utilization of funds which was due to lack of appropriate planning for timely



utilization of scheme funds and delays in execution of schemes / programmes by the PRIs through regular monitoring and evaluation. This resulted in non-achievement of the objective of the scheme and non-fulfillment of the objective to meet needs of the people through developmental works.

### **1.13.2 Non-utilisation of unspent balances of inoperative schemes**

As per instruction of the State Government, the unspent balances of closed and inactive schemes/programmes should be surrendered to the concerned department. However, a sum of ₹43.16 lakh pertaining to various dead/closed schemes and programmes were lying in the bank and not surrendered to the department which resulted in blockage of these funds (**Appendix-I**).

The Principal Secretary, Panchayati Raj Department stated (December 2010) that instructions have been issued to transfer the unspent balances to the concerned new schemes and accordingly update the same under Panchayati Raj Institutions Accounting Software (PRIASOFT).

### **1.13.3 Blocking up of funds of ₹36.14 lakh under RLTA**

For implementation of RLTA, ₹36.14 lakh was allotted by the DRDA during the year 2007-08 to the BDO, Ghatagaon for construction of eight nos. of Cluster Houses for PHC staff.

Scrutiny of records revealed that though funds were released in March 2008 but as of June 2009 not a single work was started and the entire fund was parked in Personal Ledger Account.

Thus, the amount of ₹36.14 lakh lying unspent (June 2009) in P.L. A/c since 2007-08 resulted in blocking of funds as well as the very purpose of construction of houses was defeated.

On this being pointed out the BDO did not render any specific reply on cause of delay but assured to complete the quarters soon.

### **1.13.4 Non production of vouchers**

During test check of records in ten PSs, vouchers in support of expenditure of ₹216.02 lakh as detailed below was not produced to audit for verification. In the absence of the supporting vouchers, the genuineness of the expenditure could not be ensured. No reason for non-production of the vouchers in support of the transactions could be furnished by the concerned Panchayat Samities.

In reply the Principal Secretary, Panchayati Raj Department stated (December 2010) that the units concerned would be instructed to show the wanting vouchers to next audit.

**Statement showing non-production of vouchers to Audit**

(₹ in lakh)

Sl.No	Name of the Panchayat Samities	Amount
1	Binjharpur(Jajpur)	79.64
2	Telkoi(Keonjhar)	63.47
3	Bhawanipatna(Kalahandi)	28.58
4	Ghasipura(Keonjhar)	6.36
5	Kolabira(Jharsuguda)	2.05
6	Chikiti(Ganjam)	0.57
7	Paikmal(Bargarh)	0.31
8	Phulbani(Kandhamal)	0.31
9	Saraskana(Mayurbhanj)	0.16
10	Dhankauda(Sambalpur)	34.57
	<b>Total</b>	<b>216.02</b>

**1.13.5 Deficiencies in the maintenance of Cash Books**

Test check of cash books of PRIs in audit revealed the following deficiencies in maintenance of cash book in spite of repeated audit objections: -

- Periodical as well as surprise physical verification of cash was not conducted.
- Heavy cash balances in excess of the prescribed limits of ₹10,000/- and not required for immediate purposes were kept in hand.
- Due to non-conduct of bank reconciliation there was huge discrepancy between the cash book and pass book balances.
- A consolidated Cash Book showing the overall receipt and disbursement of cash of each PS is not maintained despite operation of more than one cash book.
- Monthly analysis of closing cash balances was not made.

#### **1.14 Recommendations**

- Annual Accounts should be prepared by the PRIs regularly and timely in prescribed formats.
- Database on finances should be maintained at all levels of PRIs.
- Budget Estimates in respect of GPs and PSs should be prepared and placed before the Grama Sabha and Panchayat Samiti respectively for its consideration and approval.
- District Planning Committee should be strengthened by providing secretariat, technical and inspection staff for discharging their function in the spirit of provisions contained in the Constitution and the Act enacted.
- Scheme funds should be utilized timely by the PRIs.