

**SECTION A**

**CHAPTER I**

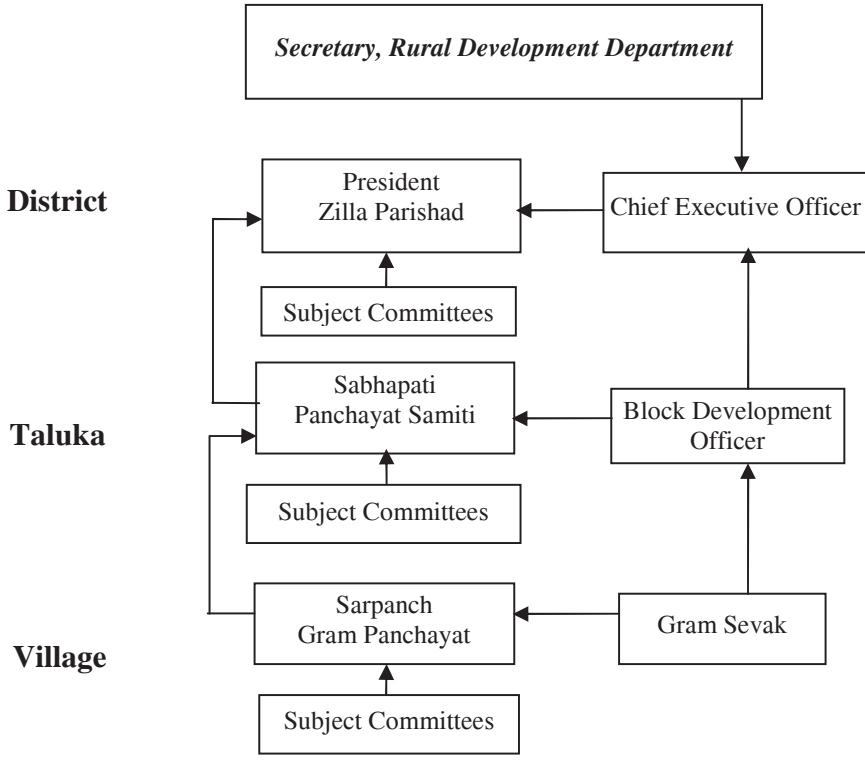
**ACCOUNTS AND FINANCES OF  
PANCHAYATI RAJ INSTITUTIONS**

**1.1 Introduction**

**1.1.1** In conformity with the provisions of the 73<sup>rd</sup> Constitutional Amendment, the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP Act) and the Bombay Village Panchayats Act, 1958 (VP Act) were amended in 1994. A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PSs) at the block level and Gram Panchayats (GPs) at the village level was established in the State. As per the 2001 Census, the total population of the State was 9.69 crore, of which the rural population was 5.58 crore (57.58 per cent). Elections to PRIs were last held in March 2007.

**1.2 Organisational Set up**

**1.2.1** The organisational set up of PRIs in Maharashtra is depicted below:



Chief Executive Officer in ZP, Block Development Officer in PS and Gram Sevak in GP report functionally to respective elected bodies and administratively to their next superior authority in the State Government hierarchy.

There are 29916<sup>1</sup> GPs for 41095 villages in Maharashtra. Gram Sevak, a village level functionary, functions as Secretary to GP and is also responsible for maintenance of accounts and records of GP. However, sanctioned strength of Gram Sevaks is 18431, against which persons-in-position are 17093 only with shortage of 1338. Thus, one Gram Sevak, on an average is working for more than one GP. This by itself poses challenge in discharge of duties particularly in respect of maintenance of accounts.

### **1.3 Powers and Function**

**1.3.1** There are 35 districts in Maharashtra. Two districts (Mumbai and Mumbai suburban) do not have rural area; therefore, there are only 33 ZPs in the State. ZPs have departments for Education, Health and Sanitation, Public Works, Social Welfare, Irrigation, Animal Husbandry, Agriculture, Public Lighting and Forests.

**1.3.2** ZPs are required to prepare the budget for the planned development of the District and utilisation of the resources. Government of India (GOI) schemes, funded through the District Rural Development Agency (DRDA) and State Government schemes are also implemented by ZP. ZPs are empowered to impose water tax, pilgrim tax and special tax on land and building.

**1.3.3** The intermediate tier of Panchayats at the Taluka level in Maharashtra is called PS. There are 351 PSs in the State. PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. PSs undertake developmental works at the block level.

**1.3.4** The VP Act provides for the constitution of Gram Sabha, which is the body consisting of persons registered in the electoral rolls of the villages within GP area. GPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/entertainments, taxes on bicycles, vehicles, shops, hotels *etc.*

**1.3.5** Gram Sabhas are required to meet periodically. They select beneficiaries for the State/Central Government schemes, prepare and approve development plans and projects to be implemented by GPs, grant permission for incurring expenditure by GPs on developmental schemes. They also convey their views on proposal for acquisition of land by GPs.

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<sup>1</sup> As per information furnished by Government of Maharashtra letter No. PRA 2010/Pra.Kra.-5/Vitta-5 dated 20 August 2010.

**1.3.6** The broad accountability structure in PRIs is as follows:

PRIs	Functions Assigned
<b>Zilla Parishad</b> Chief Executive Officer (CEO)	<ol style="list-style-type: none"> <li>1. Drawal and disbursal of fund</li> <li>2. Preparation of annual budget and accounts</li> <li>3. Supervision and control of officers of the ZP</li> <li>4. Finalisation of contracts</li> <li>5. Publishing statement of accounts of PSs in the Government Gazette</li> </ol>
Chief Accounts and Finance Officer (CAFO), ZP	<ol style="list-style-type: none"> <li>1. Compilation of the accounts of ZP</li> <li>2. Providing financial advice</li> </ol>
Heads of Departments (HODs) in ZPs	<ol style="list-style-type: none"> <li>1. According technical sanctions to the works</li> <li>2. Supervising the work of Class II officers</li> </ol>
<b>Panchayat Samiti</b> Block Development Officer (BDO)	<ol style="list-style-type: none"> <li>1. Drawal and disbursal of funds</li> <li>2. Acquisition, sale or transfer of property</li> <li>3. Preparation of statements of accounts</li> </ol>
<b>Gram Panchayat</b> Gram Sevak	<ol style="list-style-type: none"> <li>1. Secretary to the Gram Sabha</li> <li>2. Execution and monitoring of schemes and maintenance of accounts and records</li> </ol>

**1.4 Funding of Panchayati Raj Institutions**

**1.4.1** The District Fund consists of money received from the Central Government, grants for centrally sponsored schemes through state budget, funds from plan and non-plan state schemes, assigned tax and non-tax revenues, receipts of ZPs, interest on investments, *etc.*

**1.4.2** In order to tide over the time lag between the approval of the budget and release of grants by the State Government, Ways and Means Advances are released by the Rural Development and Water Conservation Department (RD&WCD) on a monthly basis to ZPs for execution of the schemes/activities/works transferred to them and for payment of pay and allowances to the staff. These advances are finally adjusted out of grants sanctioned by the State Government (Administrative Departments).

**1.4.3** Grants released by the State Government to ZP are drawn from the district treasury by ZP. ZP in turn releases the share of funds to PSs and GPs. Reconciliation of fund transfer as per ZP records with treasury is done by CAFO every month.

**1.4.4** A fund flow statement depicting the flow of funds to the PRIs is shown in **Appendix I**.

**1.5 Devolution of funds**

**Allocation of funds**

The Second Maharashtra State Finance Commission (SFC) recommended (March 2002) allocation of 40 *per cent* of State revenues to Local Bodies (LBs). The State Government while placing the action taken note on SFC's recommendation (March 2006) in the state legislature showed its

inability to accept the above recommendation on the ground that they were already giving various grants towards natural calamity, rehabilitation of farmers, assistance for increased electricity bills to farmers. The table below indicates the total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs as well as to Urban LBs during 2005-06 to 2009-10:

(₹ in crore)

Head	2005-06	2006-07	2007-08	2008-09	2009-10
State <sup>2</sup> total revenue (Tax and Non-tax revenues)	39475.29	47617.49	64476.42	61819.88	67458.95
Amount required to be allocated as per SFC to LBs (40 per cent)	15790.12	19047.00	25790.57	24727.95	26983.58
Allocation to PRIs	7472.84	7321.27	8007.34	10501.98	11726.62
Percentage of allocation to State revenue	18.93	15.38	12.42	16.99	17.38
Allocation to Urban Local Bodies (ULBs)	1031.02	2652.27	1351.25	1651.47	1708.89
Percentage of allocation to State revenue	2.61	5.57	2.10	2.67	2.53
Total	8503.86	9973.54	9358.59	12153.45	13435.51
Percentage of allocation to State revenue (Tax and Non-tax revenues)	21.54	20.95	14.51	19.66	19.92

The overall allocation to LBs declined from 21.54 per cent in 2005-06 to 19.92 per cent in 2009-10. In respect of PRIs, it declined from 18.93 per cent in 2005-06 to 17.38 per cent in 2009-10.

## 1.6 Transfer of functions and functionaries

**1.6.1** The 73<sup>rd</sup> Constitutional Amendment envisaged that all 29 functions alongwith funds and functionaries mentioned in the XI Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

**1.6.2** However, as of March 2010, the State Government had transferred only 15 functions and 3.53 lakh functionaries to PRIs. Non-transfer of functions and functionaries had been commented in the Report of the Comptroller and Auditor General of India (Local Bodies), Government of Maharashtra, for the year ended 31 March 2007, but the State Government has not taken effective action so far in this regard.

## 1.7 Receipts and expenditure of PRIs

### (A) Zilla Parishads

**1.7.1** As per the information collected from ZPs, the position of revenue/capital receipts, revenue/capital expenditure in respect of ZPs and PSs for the period from 2005-06 to 2009-10 is as follows. PSs accounts are incorporated in ZP Accounts.

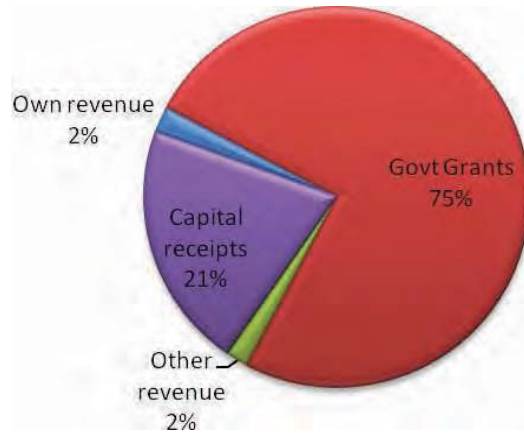
<sup>2</sup> Vide Report of Comptroller & Auditor General of India (Civil), Government of Maharashtra for the year 2009-10

(₹ in crore)

Year	Receipts						Expenditure		
	Own revenue <sup>3</sup>	Government Grants	Other revenue	Total revenue	Capital receipts	Total receipts	Revenue	Capital	Total
2005-06	154	7394	181	7729	2267	9996	7495	1984	9479
2006-07	144	7784	188	8116	2691	10807	8161	2314	10475
2007-08	161	8246	183	8590	2521	11111	8494	1923	10417
2008-09	542	11825	443	12810	3066	15876	11661	3118	14779
2009-10	481	15240	278	15999	3573	19572	15309	3365	18674
Total	1482	50489	1273	53244	14118	67362	51120	12704	63824

Position of receipt from different sources is further described in pie chart below:

**ZP Receipts FY 2005-10**



### Capital Expenditure

Increase in Capital expenditure indicates impetus given to infrastructure development activities in PRIs. However, while revenue expenditure increased from ₹ 7495 crore in 2005-06 to ₹ 15309 crore (104 *per cent*) in 2009-10, capital expenditure increased from ₹ 1984 crore to ₹ 3365 crore (69 *per cent*) only during the same period.

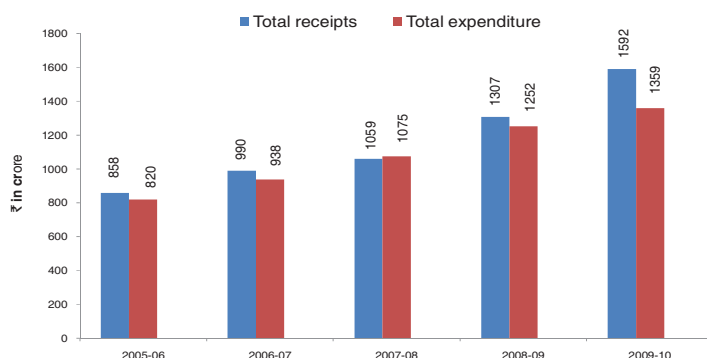
<sup>3</sup> excludes opening balance

**(B) Gram Panchayat**

(₹ in crore)

Year	Total Receipts					Total Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
2005-06	293	381	112	72	858	820
2006-07	376	430	113	71	990	938
2007-08	377	482	131	69	1059	1075
2008-09	524	506	115	162	1307	1252
2009-10 <sup>4</sup>	627	525	155	285	1592	1359

(Source : Figures furnished by ZPs )



**1.7.2** The following are the component-wise details of the revenue/capital expenditure of GPs and ZPs including PSs during 2007-08 to 2009-10.

(₹ in crore)

Components	GPs expenditure			ZPs & PSs expenditure		
	2007-08	2008-09	2009-10 <sup>5</sup>	2007-08	2008-09	2009-10
Education	25	32	29	3917	4768	7280
Health and Sanitation	250	312	297	965	1410	1481
Public Works	423	398	481	692	836	1092
Social Welfare	42	79	66	700	443	523
Irrigation	-	6	9	211	449	429
Animal Husbandry	-	7	6	123	160	213
Agriculture	-	3	2	128	126	180
Public lighting	50	43	34	-	22	56
Forests	-	-	-	6	5	5
Administration	179	235	206	610	907	1166
Other expenditure	106	129	207	1142	2535	2885
Capital expenditure	-	8	22	1923	3118	3365
<b>TOTAL</b>	<b>1075</b>	<b>1252</b>	<b>1359</b>	<b>10417</b>	<b>14779</b>	<b>18675</b>

**1.7.3** The works undertaken by the ZPs come under the categories of

<sup>4</sup> Figures furnished by Deputy CEO of Gram Panchayats of all Zilla Parishads (excluding Jalgaon and Raigad) though reminded repeatedly with the latest reminder on 16 May 2011 and to RD&WCD of GOM of 4 April 2011.

<sup>5</sup> Figures furnished by Deputy CEO of Gram Panchayats of all Zilla Parishads (excluding Jalgaon and Raigad) though reminded repeatedly with the latest reminder on 16 May 2011 and to RD&WCD of GOM of 4 April 2011.

(1) ZPs own schemes (2) schemes transferred/funded by the State Government (3) schemes funded by other agencies. From the information received from 29<sup>6</sup> ZPs for the year 2009-10, these ZPs incurred an expenditure of ₹ 15571.24 crore (₹ 13023.88 crore on Transferred schemes, ₹ 1491.19 crore on Agency schemes and ₹ 1056.17 crore on ZPs Own schemes). District wise split up of expenditure incurred on Transferred and Agency schemes and on ZPs own schemes have been given in **Appendix II**.

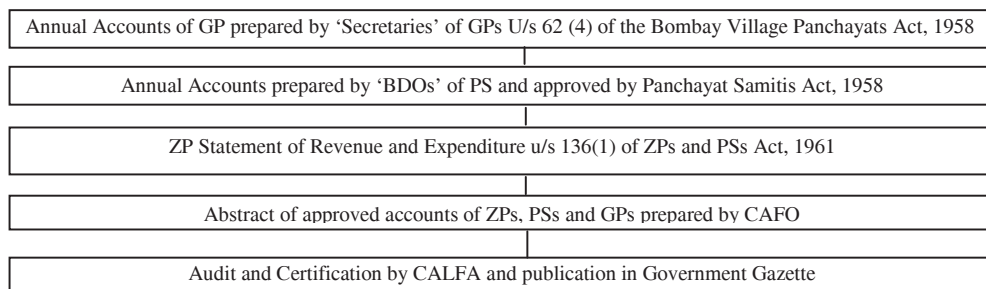
## 1.8 Accounting arrangements

**1.8.1** Under the provisions of Section 136(2) of ZP Act, the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts. Under provisions of Section 62(4) of the VP Act, the Secretaries of the GPs are required to prepare Annual Accounts of GPs. The approved accounts are to be forwarded to the ZPs on the prescribed date. However it has been observed in World Bank Study Report on Public Financial Management and Accountability in PRIs, that there is no uniform accounting practice followed by the GPs and there is no record keeping of assets created. There is no monitoring system adopted for watching the preparation of Accounts and its correctness at PS/ZP level. A performance Audit on quality of maintenance of accounts in PRIs in Maharashtra State was also conducted and commented in Chapter II of the Report of the Comptroller and Auditor General of India (Local Bodies) Government of Maharashtra for the year ended 31 March 2007.

**1.8.2** In accordance with the provisions of Section 136 (1) of the ZP Act, CEOs of ZPs are required to prepare every year, statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year. These are then required to be placed before the Finance Committee and the accounts are finally to be placed before the ZPs for approval along with the Finance Committee Reports.

**1.8.3** The abstracts of the approved accounts of the ZPs/PSs and GPs are prepared by CAFO and forwarded to the Chief Auditor, Local Fund Accounts (CALFA) for audit, certification and publication in the Government Gazette.

### Flow Chart of Accounts compilation in PRIs



<sup>6</sup> Excluding information in respect of Nandurbar, Nashik, Raigad and Sangli though reminded repeatedly with the latest reminder on 16 May 2011 and to RD&WCD of GOM on 4 April 2011

**1.8.4** The prescribed date for finalisation of annual accounts of ZPs for a financial year is 30 June of the following year. Accordingly, the accounts for 2009-10 should have been finalised by June 2010. However, it was observed from the information received from 27 ZPs that their accounts for 2009-10 were not finalized. The information has not been received from six<sup>7</sup> ZPs. Arrears in finalisation of accounts by the ZPs and certification thereof by the CALFA ranged from one to six years.

**1.8.5** According to Section 136 (9) of ZP Act, the annual accounts of ZPs, duly approved and certified by CALFA for a year, were required to be published in the Government Gazette by 15 November of the subsequent year. However, information regarding the status of publication of the ZPs' accounts made available by the Government indicated arrears of one to two years in publication of annual accounts of ZPs, although procedure for ensuring timely finalisation and publication of the accounts had been prescribed. Arrears in finalisation and publication of accounts is indicative of inefficient internal controls. Absence of a proper management information system and the increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriations and other irregularities.

**1.8.6 Non-adoption of format of accounts**

The Eleventh Finance Commission (EFC) had recommended that the Comptroller and Auditor General of India exercise control and supervision over the proper maintenance of accounts of LB. Accordingly, Comptroller and Auditor General of India had prescribed the formats for maintenance of accounts by PRIs in 2002. This was followed by simplified formats in 2007 and 2009. The State Government had issued instructions to the PRIs and instructed ZPs to maintain the annual accounts in the same formats. It is, however, observed that the State Government has not yet amended (August 2010) the Maharashtra Zilla Parishads and Panchayat Samitis Account Code (MZP&PS) and Bombay Village Panchayat (Budget & Accounts) Rules, due to which maintenance of accounts in the prescribed formats were not done by any of the ZPs.

**1.8.7 Pending assessment of grants**

In order to tide over the time lag between the approval of the budget and release of grants by the State Government, funds were made available to PRIs through ways and means advances for implementation of schemes. The grants were released by the Government to ZPs as the functions had been transferred to them. According to Government orders (May 2000), grants paid to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year. They were to inform Rural Development and Water Conservation Department (RD&WCD) about the amounts recoverable from/payable to ZPs for adjustment while releasing ways and means advances for the succeeding years.

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<sup>7</sup> Chandrapur, Nandurbar, Nashik, Raigad, Sangli and Yavatmal



It was, however, observed that in respect of 10 departments of 22<sup>8</sup> ZPs, there were arrears in assessment of grants as follows:

Sr. No.	Name of department	Period of arrears
1	Education	1998-2010
2	Agriculture	1998-2010
3	Social Welfare	1999-2010
4	Animal Husbandry	2003-2010
5	Public Health	2000-2010
6	Family Welfare	1998-2010
7	Water Supply and Sanitation	2001-2010
8	Women and Child Welfare	1996-2010
9	Minor Irrigation	1998-2010
10	Public works	1998-2010

Government stated (May 2011) that they discontinued (October 2008) the system of releasing grants by ways and means advances to the ZP. The cash grants were released to the ZPs through Budget Distribution System (BDS) by the respective administrative departments<sup>9</sup>. Introduction of distribution of cash grants does not dispense with the system of assessment of grants of different departments in ZPs by the administrative departments.

### 1.9 Creation of database on finances of PRIs

Twelfth Finance Commission (TFC) had accorded high priority for the creation of database on finances of Panchayati Raj Institutions at the grass root. Accordingly, ₹ 21.84 crore was allocated for the creation of Panchayati Raj Portal. The project of Panchayati Raj Portal had been completed. Government stated (May 2011) that ₹ 20.28 crore from TFC grants was spent for creation of Panchayati Raj Portal. In this project the detailed information of all the VPs in Maharashtra is captured, verified and uploaded on the website of National Panchayati Raj Portal. With this project, general data base regarding information of PRIs and State Schemes has been created. The balance amount of ₹ 1.56 crore has been redistributed to the PRIs (December 2010). It was observed that though the project has been stated to be completed, database pertaining to finance of PRIs has not been created as was provided for in the National Panchayati Raj Portal.

### 1.10 District Planning Committee

Under Article 243ZD of the Constitution, States are required to form District Planning Committees (DPCs) to consolidate the development plans prepared by PRIs and ULBs. In Maharashtra, District Planning and

<sup>8</sup> Ahmednagar, Akola, Aurangabad, Buldhana, Gadchiroli, Gondia, Hingoli, Jalgaon, Jalna, Kolhapur, Latur, Nagpur, Nanded, Nandurbar, Nashik, Osmanabad, Parbhani, Satara, Sindhudurg, Solapur, Thane and Wardha.

<sup>9</sup> RD&WCD informed (May 2011) the ZPs were to credit the unspent grants as on 31 March 2009. All the ZPs except Nanded credited ₹ 1056.15 crore

Development Councils existing after formation of the State in 1960 were replaced by DPCs constituted under the Maharashtra District Planning Committee (Constitution and Functions) Act, 1998. The Act came into force from 15 March 1999.

Government stated (February 2011) that out of 35 DPCs in the State, 33 DPCs with elected members from PRIs and ULBs were functioning in the state and two DPCs where elections were not held were functioning with nominated and ex-officio members.

### **1.11 Twelfth Finance Commission Grants**

The State Government received ₹ 1983 crore as TFC grants during 2005-06 to 2009-10. Out of this, expenditure of ₹ 1938.80 crore was incurred leaving a balance of ₹ 44.20 crore (September 2010).

TFC grants are to be utilised for purposes specified in the guidelines like repairs and maintenance of water supply schemes, schools, primary health centres *etc.*

Government stated (December 2010) that out of ₹ 1938.80 crore spent so far, ₹ 1260.22 crore (65 *per cent*) has been spent on Water Supply and Sanitation schemes by the PRIs.

### **1.12 Audit Arrangements**

#### **1.12.1 Audit by Chief Auditor, Local Fund Accounts**

The Audit of PRIs is conducted by the CALFA in accordance with provisions of the Bombay Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act. The CALFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

It was observed that local fund (transaction) audit of all ZPs and PSs was conducted for the year 2007-08. The Consolidated Audit Review Report for the year 2007-08 prepared by the CALFA was presented to the State Legislature in July 2010. The work of preparation of Consolidated Audit Review Report for the year 2008-09 is under finalization and the same has not yet been submitted to the Legislature.

#### **1.12.2 Audit by Comptroller and Auditor General of India**

The Comptroller and Auditor General of India conducts audit of ZPs and PSs under Section 14(1) of the Comptroller and Auditor General's (DPC) Act, 1971. Section 142 of the ZP Act, 1961 also contains an enabling provision for audit by the Comptroller and Auditor General of India.

The Audit of GPs has been entrusted (March 2011) by GOM under Technical Guidance and Supervision (TGS) to the Comptroller and Auditor General of India.

#### **1.12.3 Formation of District Level Audit Committees**

The Government directed (March 2001) ZPs to constitute District Level

Audit Committees (DLAC) for discussion and settlement of outstanding audit objections raised by CALFA and Accountant General. The State Government stated (May 2011) that as on 31 March 2010, DLAC had been formed in all the 33 districts. As per performance budget of RD&WCD (2010-11), 20309 Paras (Accountant General: 1806; Local Fund Account: 17358 and Panchayati Raj Committee: 1145) had been cleared during 2008-09.

#### **1.12.4 Outstanding Paras from CALFA Report**

As per the report of CALFA for the year 2007-08, 105464 paragraphs in respect of Government funds involving ₹ 4892.93 crore and 42164 paragraphs pertaining to ZPs own funds involving ₹ 935.88 crore were pending for settlement for the period from 1962 to 2008 as detailed in **Appendix III**.

#### **1.12.5 Outstanding Inspection Reports and Paras of Accountant General**

Audit observations on financial irregularities and defects in initial accounts/ records noticed during local audit by the Accountant General but not settled on the spot were communicated to the heads of offices and departmental authorities through Inspection Reports. More important and serious irregularities were reported to the Government. Statements indicating the number of observations outstanding for over six months were also sent to the Government for expediting their settlement.

For efficient implementation of the schemes transferred to the PRIs, all deficiencies pointed out by the Accountant General’s audit were required to be complied with as early as possible and this would ensure establishing accountability structure in PRIs.

At the end of March 2010, 8393 Inspection Reports containing 15954 paras of ZPs, PSs and GPs issued by Audit were pending settlement. The year-wise breakup of the outstanding reports and paras at the end of December 2010 were as follows:

Year	Inspection Reports			Paragraphs		
	Mumbai	Nagpur	Total	Mumbai	Nagpur	Total
Upto 2005-06	667	1372	2039	1603	2219	3822
2006-07	157	318	475	423	324	747
2007-08	220	2322	2542	559	2414	2973
2008-09	272	1884	2156	852	4168	5020
2009-10	306	875	1181	1213	2179	3392
<b>Total</b>	<b>1622</b>	<b>6771</b>	<b>8393</b>	<b>4650</b>	<b>11304</b>	<b>15954</b>

Arrears in outstanding Inspection Reports and paragraphs indicate weak internal control mechanism in PRIs.

### **1.13 Conclusion**

An overview of the functioning of PRIs in the State revealed that:

- allocations out of the State budget to PRIs were much less than the 40 per cent recommended by Second Maharashtra State Finance Commission;
- out of 29 functions listed in the XI<sup>th</sup> Schedule of the Constitution of India, 15 functions were transferred to PRIs;
- increase in capital expenditure did not commensurate with the increase in revenue expenditure.
- due to non-amendment of the MZP&PS Account Code, maintenance of accounts in the formats prescribed by the Comptroller and Auditor General of India was not done in any of the ZPs;
- arrears in finalization of accounts and certification by CALFA ranged between one and six years;
- Instances of pending assessment of grants and outstanding audit paras indicate weak internal controls.

#### **1.14 Recommendations**

- Based on recommendations of the State Finance Commission in respect of devolution of funds to PRIs, State Government may consider devolutions to PRIs to augment their resources.
- In view of the substantial expenditure being incurred by PRIs, on revenue and recurring items with relative lower outlays on capital expenditure, effective steps are required to be taken particularly by ZPs so as to increase the outlays in construction of durable community assets.
- In compliance to the recommendation of XI<sup>th</sup> Finance Commission and adherence to the 73<sup>rd</sup> amendment to the Constitution of India, effective steps for early transfer of the remaining 14 functions in the XI<sup>th</sup> Schedule to the PRIs needs to be taken up on priority by the State Government.
- In view of the unspent balance lying with the ZPs towards funds released for implementation of schemes, mechanism for assessment of subsequent release of grants to ZPs, commensurate with the progress in implementation of scheme and unspent grants lying unutilised needs to be introduced on priority by the respective administrative departments responsible for sanctioning and implementation of the schemes.

The matter was referred to Government (January 2011). Reply has not been received (June 2011).