

CHAPTER IV

SECTION 'A' AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

4.1 Background

The 73rd constitutional amendment gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these PRIs with such powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 73rd amendment of the Constitution, the Government of Tamil Nadu enacted the Tamil Nadu Panchayats Act, 1994. Under this Act a three tier system of PRIs *viz.*, Village Panchayats at the village level, Panchayat Unions or Block Panchayats at the intermediary level and District Panchayats at the apex level were established.

4.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 4.1** below:

Table 4.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	Millions	62.4	1028.61	6
Population density	Sq.Km	480	313	6
Rural population (<i>per cent</i>)	Millions	34.9	742.49	7
Number of PRIs	Numbers	13035	240540	6
Number of District Panchayats	Numbers	29	540	6
Number of Panchayat Unions	Numbers	385	6000	3
Number of Village Panchayats	Numbers	12620	234000	5
Gender ratio	1,000 males	987	933	3
Literacy	Percentage	73.45	65	6

4.2.1 Classification of Panchayat Raj Institutions

The classification of Village Panchayats based on their own income during 2009-10 are given in **Table 4.2**.

Table 4.2: Income-wise classification of Village Panchayats

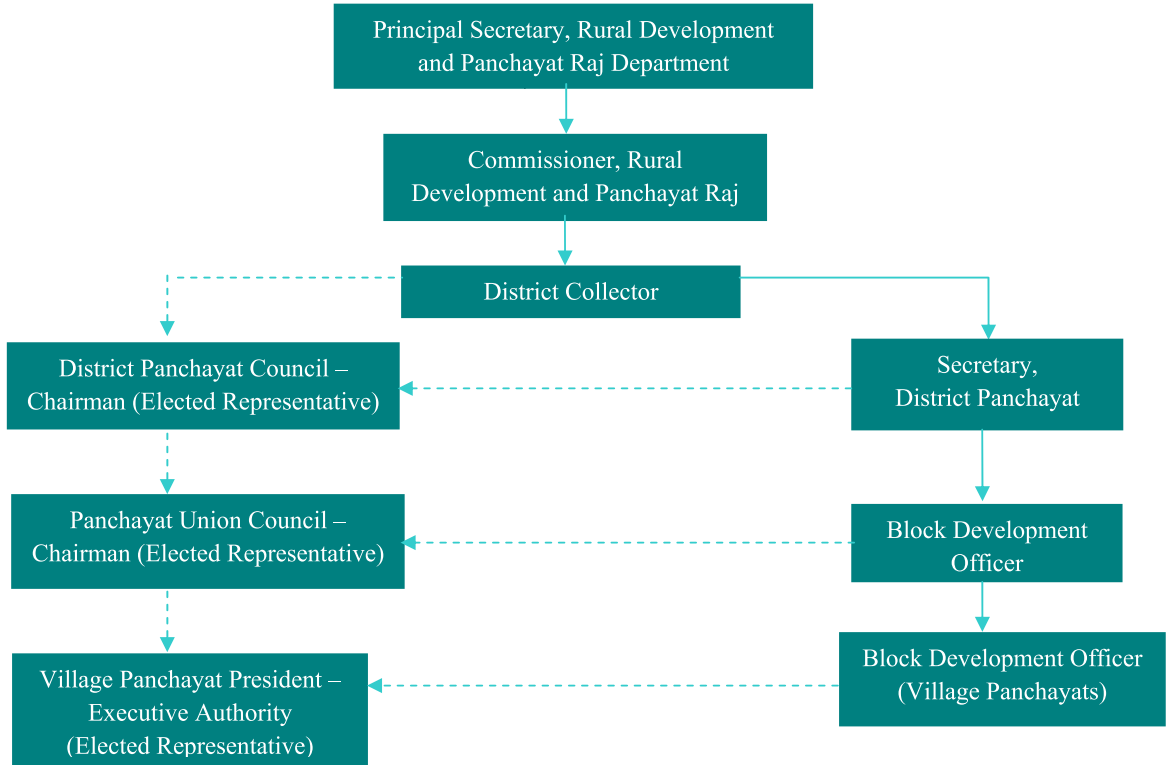
Sl. No.	Income range per annum	Number of Village Panchayats	
		Based on average income of three years from 2003-04 to 2005-06	Based on the income of 2009-10
1	Upto ₹ 50,000	10	Nil
2	Between ₹ 50,000 and ₹ one lakh	178	Nil
3	Between ₹ one lakh and ₹ five lakh	7,422	1,021
4	Between ₹ five lakh and ₹ 10 lakh	3,181	7,146
5	Between ₹ 10 lakh and ₹ 25 lakh	1,489	3,902
6	Between ₹ 25 lakh and ₹ 50 lakh	252	393
7	Between ₹ 50 lakh and ₹ one crore	60	121
8	Between ₹ one crore and ₹ 3 crore	24	32
9	Above ₹ 3 crore	2	3
Total		12,618*	12,618*

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2010-11)

* Two new Village Panchayats, Indira Nagar and Perumathur in Kurinjipadi Panchayat Union of Cuddalore District formed in August 2008 are yet to be classified under the income range.

4.3 Organisational structure of PRIs

An organogram of PRIs is as given below:



4.4 Status of devolution of functions, functionaries and funds

Tamil Nadu Panchayats Act, 1994 prescribes various powers and functions to Village Panchayats and Panchayat Unions under Sections 110, 111 and 112.

Pursuant to its commitment to devolve greater powers and responsibilities to PRIs and Urban Local Bodies (ULBs) and based on the announcement made in the Legislative Assembly on 11 August 2006, State Government ordered (January 2007) the constitution of the Third High Level Committee with the Minister for Rural Development as the Chairman along with select District Panchayat Chairpersons, Panchayat Union Chairpersons and Village Panchayat Presidents besides certain subject experts as members. The Committee was required to study the duties, functions and powers already entrusted to the PRIs and ULBs and make recommendations for further devolution of the same in order to make them more effective.

The Committee presented its report to Government in December 2007 and submitted a total of 99 recommendations, categorised under 39 subjects. Government stated (November 2010) that several new initiatives have been undertaken to strengthen the functioning of PRIs such as provision of separate vehicles for Panchayat Union Chairpersons, making the implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) works a mandatory duty for the Village Panchayat Presidents and devolution of powers in respect of Social Welfare Education and Revenue Departments and amendments made in the Town Panchayats Act, 1994 reconstituting the appointment committee of Panchayat Union, increased devolution of SFC grant to PRIs.

4.5 Decentralised planning

4.5.1 Standing Committees

PRIs shall constitute Standing Committees to perform the assigned functions. The political constitution of the committees is given in **Table 4.3** below:

Table 4.3: Political constitution of the Standing Committees

Category of PRIs	Chief Political Executive	Committees	Political Executives
District Panchayats	Chairman	Food and Agriculture, Education, Health and Welfare, Industries and Labour, Public Works Committee	Chairman and Members of the Council
Panchayat Unions	Chairman	Agricultural Production, Education, General Purpose Committee	
Village Panchayats	President	-	-

As per Section 241 (1) of Tamil Nadu Panchayats Act, 1994, State Government constituted a DPC in 28 districts in November 1997. The role and responsibility of DPCs are already mentioned in Paragraph 1.5.1 of this report. As stated in Paragraph 1.5.1 of this report, the Annual Plans prepared at the apex level are only consolidated and adopted as District plans. No separate inputs are received from the PRIs. Requirements at the grass root level were thus not completely reflected in the District plans.

4.6 Financial profile

4.6.1 Fund flow to PRIs

The major resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) Grants, Own Revenue and Assigned Revenue and Loans.

Table 4.4: Fund flow mechanism in PRIs

Nature of Fund	District Panchayats		Panchayat Union		Village Panchayats	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own Revenue	-	-	Lessees/ users	Bank	Assesses/ users	Bank
Assigned Revenue	State Government	Bank	State Government	Bank	State Government	Bank
SFC						
CFC/CSS	GOI	Bank	GOI	Bank	GOI	Bank
State Plan Grant	State Government	Bank	State Government	Bank	State Government	Bank
Loans	Financial Institution	Bank	Financial Institution	Bank	Financial Institution	Bank

4.6.2 Source of receipts

Among the three tiers, Village Panchayats alone have the power to levy taxes. The other source of receipts for Village Panchayats and Panchayat Unions are non-tax revenue, assigned revenue from State Government and grants given by State Government for various purposes and State and Central Finance Commissions grants.

Details of Receipts and Expenditure of PRIs during 2005-10 as furnished by the Director of Rural Development and Panchayat Raj (DRDPR) are shown in **Table 4.5**. However, the accuracy of these figures could not be authenticated in the absence of data compiled from the audited accounts of PRIs by the department/Government.

Table 4.5: Details of Receipts and expenditure of PRIs

	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Own Revenue	240.14	269.79	307.80	277.77	309.83
Assigned Revenue	207.52	227.91	217.44	459.85	220.73
Grants	2,081.42	2,422.30	1,586.27	1,718.50	1,926.57
Total Receipts	2,529.08	2,920.00	2,111.51	2,456.12	2,457.13
Revenue Expenditure	1,716.92	1,944.12	2,231.60	2,579.24	3,044.41
Capital Expenditure	620.01	616.53	500.69	505.21	471.61
Total Expenditure	2,337.02	2,560.65	2,732.29	3,084.45	3,516.02

The expenditure is more than the receipt for the year 2007-08 to 2009-10 as the details of grants of SFC and CFC only were made available by DRDPR. The details of other scheme grants routed through DRDA were not available.

4.7 Accounting framework

4.7.1 Accounts and database formats

State Government issued orders (April 2004) to adopt the accounts format prescribed by the Comptroller and Auditor General of India with effect from 1 April 2004 in all PRIs. The Commissioner of Rural Development and Panchayat Raj (CRDPR) was also directed by the State Government to create the database in PRIs in consultation with National Informatics Centre (NIC) which would develop software for adoption of the formats.

Government of India released ₹ 60.73 crore¹ during 2003-06 for maintenance of accounts and database. Government of Tamil Nadu also allocated ₹ 9.08 crore as a matching grant. Of this, the State Government released ₹ 60.32 crore and 13,074 computers costing ₹ 51.64 crore were purchased during the period between March 2004 and February 2006 and distributed to PRIs to maintain accounts and database of finances.

The Government stated (May 2009) that though a software for accounts maintenance in the Village Panchayats called Panchayat Raj Institutions Accounts Software (PRIA Soft) was developed by NIC, it could not be used due to the change of accounting system of Village Panchayats as per Government order issued in August 2007 wherein the method of accounting and the four² types of accounts to be maintained in each Village Panchayat was stipulated.

CRDPR stated (March 2011) that PRIA Soft was complicated and could be handled only by qualified accounting personnel with enough knowledge in commerce or computer applications. Further, the CRDPR stated that the present accounting system of cash based single entry system was sufficient and migration to double entry system would involve enormous difficulties and risks which would put the accounting system of PRIs in total disarray apart from causing considerable delay in preparation and finalisation of Village Panchayat Account.

Procurement of computers without ensuring its utility was injudicious. The computers purchased and distributed to PRIs at a cost of ₹ 51.64 crore for maintenance of accounts and data base had not been utilized for the intended purpose.

4.8 Audit arrangements

In accordance with Section 193 of Tamil Nadu Panchayats Act, 1994, Government of Tamil Nadu appointed the following officers as Auditors for PRIs as given in **Table 4.6**.

¹ ₹ 36.34 crore and ₹ 24.39 crore as per the recommendations of Eleventh and Twelfth Finance Commission respectively.

² (1) Village Panchayat Fund Account, (2) Village Panchayat payments of TNEB/TWAD Board Account, (3) Village Panchayat Scheme Fund Account and (4) Village Panchayat NREGS Account.

Table 4.6: Audit arrangements for PRIs

Tier of PRI	Auditors appointed	Periodicity
District Panchayats	Director of Local Fund Audit (DLFA)	Annually
Panchayat Unions	DLFA	Quarterly
Village Panchayats	(i) Deputy Block Development Officer (DBDO) except audit of scheme accounts	Quarterly
	(ii) Assistant Director of Rural Development (Audit) except audit of scheme accounts	Quarterly
	(iii) DLFA for audit of scheme accounts	Annually (test check)

DLFA is the statutory Auditor for Panchayat Unions and District Panchayats. Based on the recommendation of Second State Finance Commission (SSFC), DLFA is conducting only test audit of Village Panchayats including scheme accounts. The Deputy Block Development Officer audits all the General Fund accounts of all the Village Panchayats (cent *per cent* audit) and certifies them except audit of scheme accounts.

Accounts of District Panchayats and Panchayat Unions are also audited by Principal Accountant General (Civil Audit) under Section 14 (1) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971. Further technical guidance is also provided by the Principal Accountant General to DLFA regarding audit of District Panchayats and Panchayat Unions in terms of order of Government of Tamil Nadu issued in March 2003.

Audit Reports upto the year 1996-97 were discussed by the Committee on Public Accounts (PAC) and recommendations were issued. As of June 2011, there were 225 recommendations relating to 1982-83 to 1993-94 of the Rural Development and Panchayat Raj (RDPR) Department pending final settlement which *inter-alia* consisted of paragraphs relating to PRIs. CAG's Audit Report on PRIs presented in State Legislature for the year 2000-2001 and for the years 2005-06 to 2008-09 have not been taken up for discussion by PAC.

4.8.1 Audit of PRIs by Principal Accountant General (Civil Audit)

Audit of PRIs was conducted under Section 14 (1) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to Panchayat Raj Institutions. Important irregularities detected by Audit during local audit of PRIs through test check of records are followed up through Inspection Reports issued to the CRDPR with copies to the audited PRIs.

Government had issued general orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities for all such paragraphs included in the inspection reports issued by Audit. However, as of December 2010, 2,305 paragraphs relating to 474 Inspection Reports were not settled for want of satisfactory replies.

SECTION ‘B’ – FINANCIAL REPORTING

4.9 Introduction

Financial reporting in the PRIs is a key element of accountability. The resource base of PRIs in addition to their own tax/non tax revenue consists of devolution of funds by State Government, assigned/shared revenue and funds provided based on the recommendations of Central Finance Commission. A chart showing the funds flow to PRIs is given in **Appendix 4.1**.

4.10 Accounts maintained by Panchayat Raj Institutions

According to Tamil Nadu Panchayats Act, 1994 PRIs are required to maintain various types of accounts as detailed in **Appendix 4.2**.

4.11 Arrears in Audit and Accounts

4.11.1 Audit of PRIs by DLFA

(a) The position of arrears of audit of PRIs as of December 2010 is given in **Table 4.7**.

Table 4.7: Position of audit of Panchayat Unions and District Panchayats by DLFA

Category of PRI	Year	Total number	Accounts yet to be submitted	Audit completed	Audit in arrears as of December 2010 (Percentage)
Panchayat Unions	2008-09	385	9	49	336 (87)
	2009-10	385	385	-	385 (100)
District Panchayats	2008-09	29	14	15	14 (48)
	2009-10	29	29	-	29 (100)

(Source: Details furnished by DLFA in January 2011)

(Figures in brackets indicate the percentage of audit in arrears)

As seen from the table, out of 385 Panchayat Unions and 29 District Panchayats, DLFA has completed audit only in 49 Panchayat Unions and 15 District Panchayats for the year 2008-09 and for the year 2009-10 audit is yet to be completed by DLFA in all the Panchayat Unions and District Panchayats as the accounts are yet to be submitted by Panchayat Unions and District Panchayats to DLFA.

(b) The regular audit of Village Panchayats was conducted by the Deputy Block Development Officers and 22 *per cent*³ of the total number of Village Panchayats has to be test checked by the DLFA annually as per Government

³ Including two *per cent* of Village Panchayats based on receipts, value of works and on specific complaints forwarded by Director of Rural Development and Panchayat Raj.

orders of November 2002. The position of audit of Village Panchayats, as of December 2010, is given in **Table 4.8**.

Table 4.8: Position of audit of Village Panchayats

Category of PRI	Total number to be Audited by DLFA	Number of Village Panchayats wherein Audit not completed	
		2008-09	2009-10
Village Panchayats	2,776	853	2,523

(Source: Details furnished by DLFA in January 2011)

The number of paragraphs included in the Inspection Reports of DLFA issued up to 2008-09, pending settlement as of December 2010 in respect of Panchayat Unions and District Panchayats, aggregated to 24,138 and 308 respectively. Year-wise pendency position reported by DLFA as of January 2011 was as given in **Table 4.9**.

Table 4.9 : Year-wise pendency details of paragraphs in the IRs of DLFA

Year of IR	Number of paragraphs pending in respect of	
	Panchayat Unions	District Panchayats
Upto 2002-2003	4,143	71
2003-2004	515	6
2004-2005	613	14
2005-2006	966	22
2006-2007	1,978	31
2007-2008	5,767	40
2008-2009	10,156	124
Total	24,138	308

(Source: Details furnished by DLFA in February 2011)

State Government appointed State High Level Committee in November 1997 with the Commissioner, RDPR Department as Chairman and DLFA as Deputy Chairman assisted by three⁴ members and District High Level Committee (DHLC) headed by District Collector as Chairman and Project Officer, District Rural Development Agency (DRDA) as Deputy Chairman assisted by three⁵ members and one Secretary for settlement of outstanding paragraphs.

As reported by DLFA (April 2011), the DHLC conducted 176 meetings during the years 2009-10 and 2010-11 (upto December 2010) and settled 4,772 paragraphs relating to Panchayat Unions and District Panchayats.

⁴ Financial Advisor and Chief Accounts Officer, RDPR Department; Chief Engineer/Superintending Engineer, Tamil Nadu Water Supply and Drainage Board and Chief Engineer (Highways and Rural Works) as members.

⁵ Deputy Director, DLFA; Executive Engineer, DRDA; Deputy Director, RDPR Department as members and PA to District Collector (Audit) as Secretary.

4.12 Conclusion

There was steady increase in receipt from ₹ 2,111.51 crore in 2007-08 to ₹ 2,457.13 crore in 2009-10. Computers provided to PRIs at a cost of ₹ 51.64 crore for maintenance of accounts and data base had not been utilised for the intended purpose. Nine Panchayat Unions and 14 District Panchayats were yet to finalise their accounts for the year 2008-09 and all the 385 Panchayat Unions and 29 District Panchayats were yet to finalise their accounts for the year 2009-10 though they were to finalise their accounts by 30th June.