

CHAPTER I

An Overview of The Panchayati Raj Institutions

1.1 Introduction

In keeping with the Seventy-third Constitutional amendment 1992, Uttar Pradesh *Kshetra Panchayat and Zila Panchayat Adhiniyam* 1961 was amended in 1994 to establish a three-tier Panchayat Raj Institution system of elected bodies. The amended Act envisages decentralization of power to rural self-governing bodies, viz., *Gram Panchayat* (GP) at village level, *Kshetra Panchayat* (KP) at intermediate level and *Zila Panchayat* (ZP) at the district level which till then were vested with the State Government. The system of Panchayati Raj Institutions (PRIs) aimed at increasing participation of people and effective implementation of rural development programmes. The overall supervision, co-ordination, planning and implementation of developmental schemes vested with the ZP.

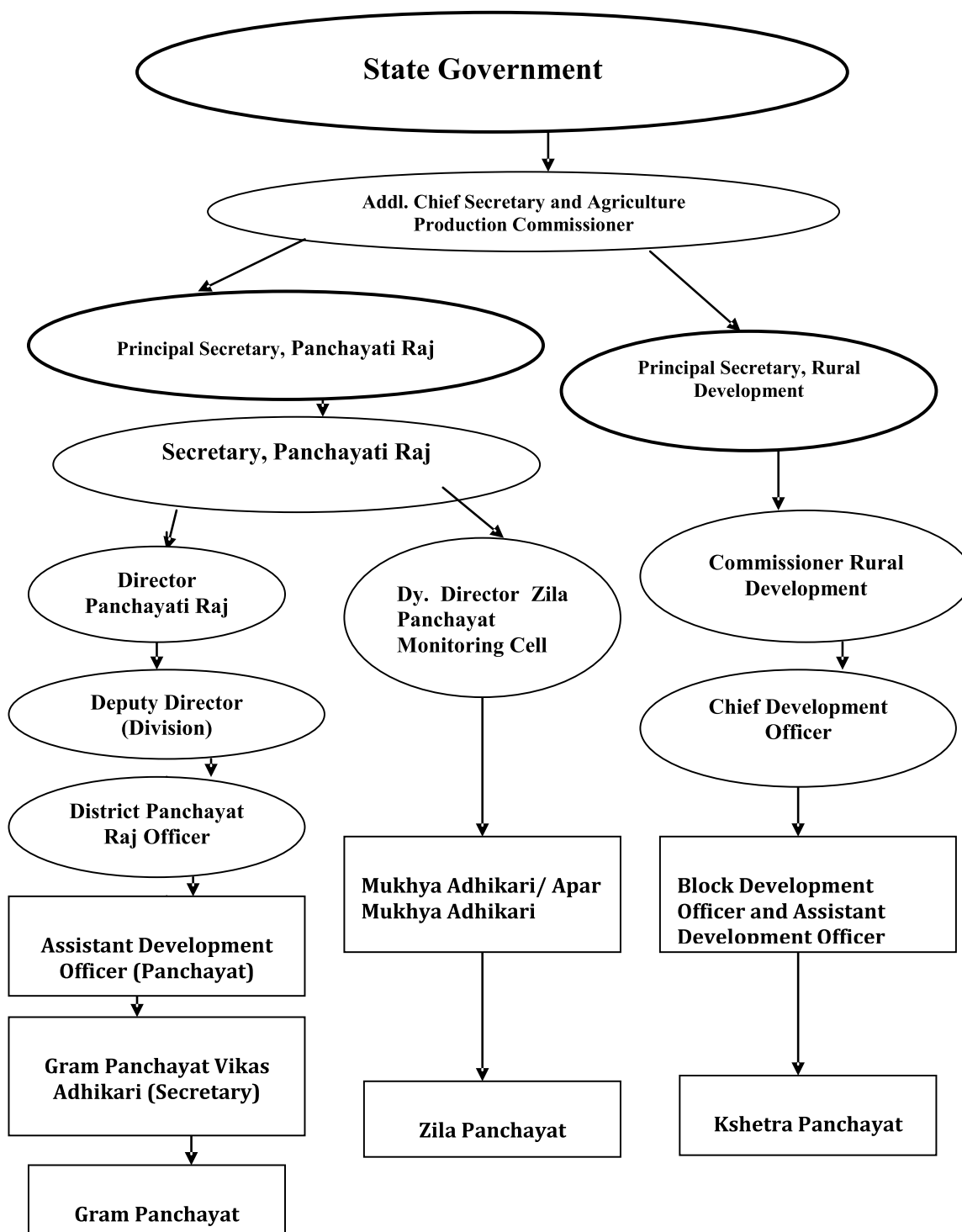
The total rural population of the State, as per Census 2001, was 13.17 crore. At the end of March 2010, there were 72 ZPs¹, 821 KPs and 51,914 GPs in the State.

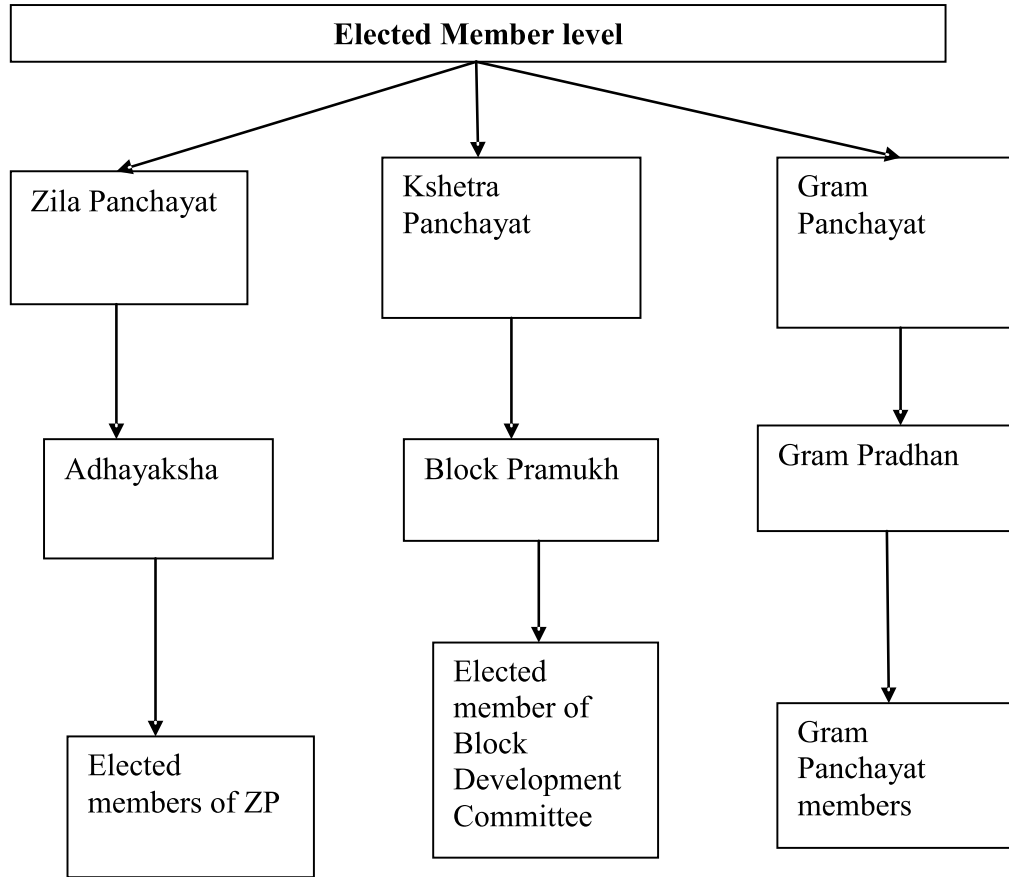
The last election to the elected bodies of the aforesaid PRIs was held during October-November 2010 in which 51,914 *Gram Pradhans* for GPs, 821 *Pramukhs* for KPs and 72 *Adhyakshas* for ZPs were elected.

¹ Zila Panchayat, Chattrapati Shahuji Maharaj Nagar was created in 2010.

1.2 Organizational set-up

The Administrative control of the three tiers of PRIs is shown below:





1.3 Database on finances of Panchayati Raj Institutions

With a view to facilitate comparison of performance of PRIs among the States at the Government of India level and different PRIs at State level, a database on the finances of the PRIs, in terms of the Eleventh Finance Commission's recommendation, was to be developed at the district, State and Government of India levels accessible by computerizing it and linking it through Very small Aperture terminal.

In follow up, ₹ 104.56 crore was sanctioned² and retained in Personal Ledger Account of ZP, Lucknow. Out of this, ₹ 42.07 crore was transferred (November 2009) to the Government account, ₹ three lakh was paid (March 2010) to the Indian Institute of Technology (IIT) for testing of the scope of work. However,

² Eleventh Finance Commission: ₹ 21.04 crore (2000-01) and ₹ 21.03 crore (2001-02) and Twelfth Finance Commission, ₹ 33.64 crore (2006-07) and ₹ 28.85 crore (2007-08)

scope of work was checked by IIT Kanpur and approved by the State Government (March 2010), ₹ 62.37 crore were transferred (January 2011) to the PRIs for maintenance of drinking water and sanitation amenities and the remaining ₹ nine lakh were lying unspent in the Personal Ledger Account.

Non-creation of the database deprived the Government to assess performances of the PRIs by comparing it with that of other States.

1.4 Sources of revenue

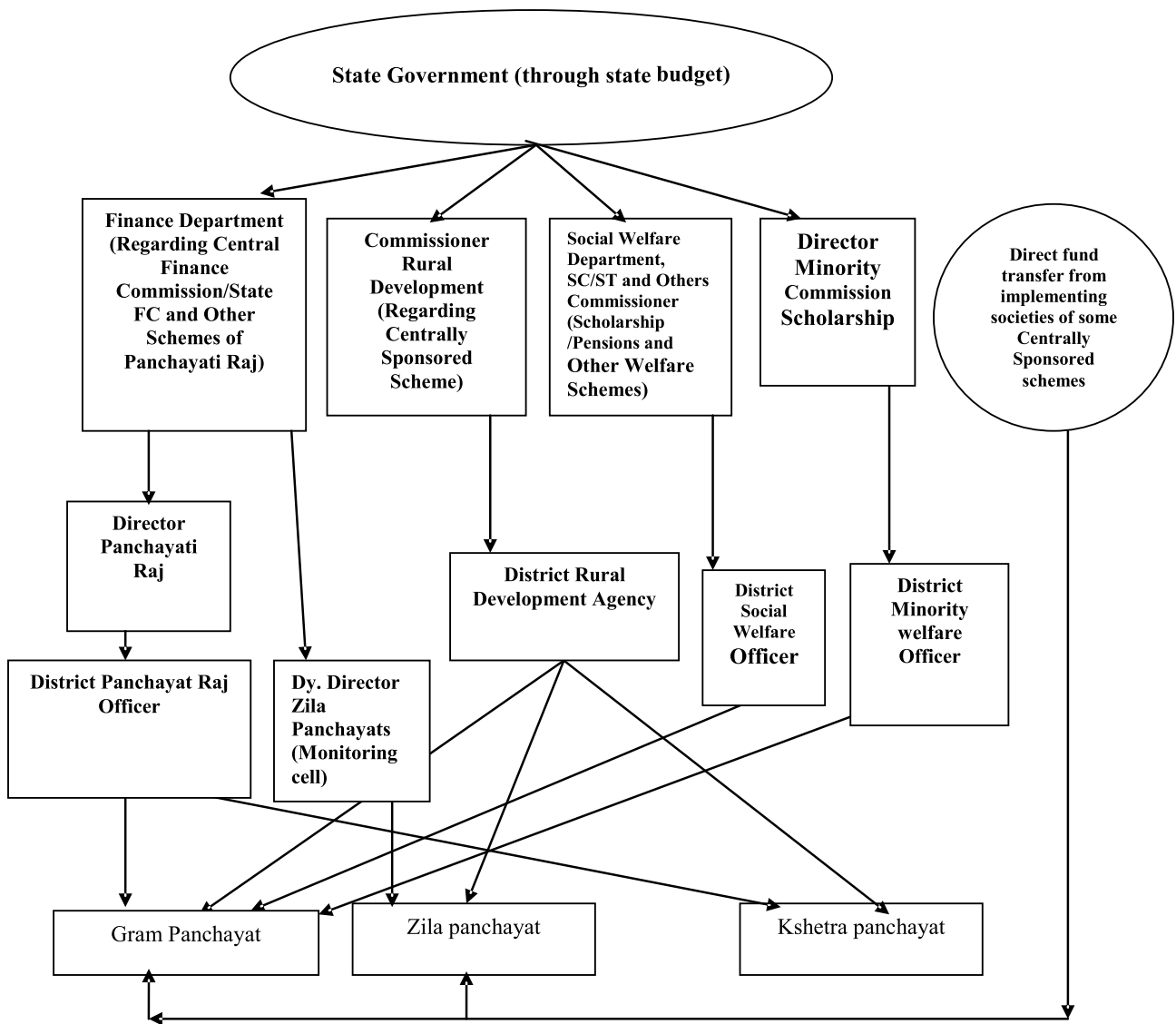
1.4.1 Flow of revenues

With the objective to augment resources of the PRIs, the Twelfth Finance Commission and the State Finance Commission recommended the State Government to release grants to them. In all, the sources of revenues for the PRIs comprised:

- grants assigned under the recommendations of the Twelfth Finance Commission;
- five *per cent* of net proceeds of State's net tax revenue as per recommendations of the Second State Finance Commission;
- grants received through District Rural Development Agency for execution of Centrally Sponsored Schemes;
- funds from Departments for the functions transferred to the PRIs;
- revenue earned by the PRIs out of their own resources such as taxes, rent, fees, etc.

1.4.2 Funds flow chart

Apart from own resources funds flow to PRIs from central and state government for implementing various centrally sponsored programmes. The flow of funds to the PRIs at the grass root level is depicted in a chart as follows:



1.4.3 Aggregate receipts

The position of aggregate grants received by the PRIs under the recommendations of the Twelfth Finance Commission, the State Finance Commission, grants for Centrally Sponsored Schemes and revenues realized from their own resources during 2005-10 is given in **Table 1**.

Table 1: Aggregate receipts of the Panchayati Raj Institutions

(₹ in crore)

Year	Twelfth Finance Commission	State Finance Commission	Centrally Sponsored Schemes	Own resources	Total
2005-06	585.60	816.94	1949.96	80.95	3433.45
2006-07	585.60	1169.05	1698.37	73.90	3526.92
2007-08	585.60	1567.77	3340.80	90.75	5584.92
2008-09	587.28	1281.68	8679.89	91.80	10640.65
2009-10	585.60	1262.07	12119.67	103.73	14071.07
Total	2929.68	6097.51	27788.69	441.13	37257.01

(Source: Director Panchayati Raj Lucknow, Dy. Director Zila Panchayat Monitoring Cell Lucknow, Commissioner Rural Development Lucknow)

There was increasing trend in receipts during 2005-10. The major increase occurred under Centrally Sponsored Schemes.

1.4.4 Devolution of State Finance Commission grant

Second Finance Commission recommended that five *per cent* of the net proceeds of total tax revenue should be devolved to the PRIs. The devolution of funds and actual funds released (2005-10) by the Government is given in **Table 2**.

Table 2: Net proceeds, vis-a-vis, devolution of funds

(₹ in crore)

Year	Net proceeds of total tax revenue of State Government	Funds to be devolved	Funds actually devolved	Shortfalls/ Excess	Percent
2005-06	18,858	943	817	(-) 126	(-) 13
2006-07	22,998	1,150	1,169	(+)019	(+) 02
2007-08	24,959	1,248	1,568	(+)320	(+) 26
2008-09	28,659	1,433	1282	(-)151	(-) 11
2009-10	33,878	1,694	1,262	(-)432	(-) 26
Total	129,352	6,468	6,098	(-)370	(-) 6

(Source: Finance Accounts and Director Panchayati Raj Lucknow, Dy. Director Zila Panchayat Monitoring Cell Lucknow, Commissioner Rural Development Lucknow)

While there was an overall short devolution of ₹ 370 crore during 2005-10, the maximum shortfall was noticed during 2009-10 when only ₹ 1262 crore was devolved against ₹ 1,694 crore (short by 26 *per cent*). This deprived the PRIs to plan and undertake developmental activities in their respective areas.

1.5 Utilization of funds

1.5.1 Utilization of grants received under Twelfth Finance Commission

The position of funds available under Twelfth Finance Commission, utilization and non-utilization for 2005-10 is given in **Table 3**.

Table 3: Utilisation of Fund received under Twelfth Finance Commission

(₹ in crore)

Year	Total funds available	Funds utilized	Funds not utilized
2005-06	585.60	585.02	0.58
2006-07	585.60	551.96	33.64
2007-08	585.60	556.52	29.08
2008-09	587.28	587.10	0.18
2009-10	585.60	580.25	5.35
Total	2929.68	2860.85	68.83

(Source: Director, Panchayati Raj, Lucknow.)

During 2009-10, ₹ 5.35 crore lapsed to Government account due to non-drawal from the treasury at the Directorate level. The analysis further revealed that the figures of utilized funds were not realistic as the funds released were treated as utilized.

1.5.2 Utilization of State Finance Commission Grant

The position of grants available under State Finance Commission, utilization and non-utilization for 2005-10 is given in **Table 4**.

Table 4: Utilization of State Finance Commission Grant

(₹ in crore)

Year	Opening balances	Funds received during year	Total Funds available	Funds utilised (per cent)	Funds not utilised (per cent)
2005-06	61.11	816.94	878.05	504.36 (57)	373.69 (43)
2006-07	373.69	1,169.05	1,542.74	724.01 (47)	818.73 (53)
2007-08	818.73	1,567.77	2,386.50	1,065.30 (45)	1,321.20 (55)
2008-09	1,321.20	1,281.68	2602.88	1280.71(49)	1322.17(51)
2009-10	1322.17	1,262.07	2584.24	1,168.01(45)	1416.23(55)

(Source: Director, Panchayati Raj, Deputy Director, Zila Panchayat, Lucknow)

The above table reveals that the pace of utilization of funds by the PRIs was slow as huge amounts were lying unspent at the close of each financial year. Evidently, people were deprived of benefits of developmental activities of basic amenities like road, water supply and sanitation, etc.

1.5.3 Grants for implementation of Centrally Sponsored Schemes

PRIs are the works executing agencies of Centrally Sponsored Schemes at grassroot level. The Government of India and the State Government released funds for this. The position of grants received by the PRIs during 2006-10 for implementation of Centrally Sponsored Schemes is given in **Table 5**.

Table 5: Grants for implementation of Centrally Sponsored Schemes

(₹ in crore)

Names of Centrally sponsored schemes and periods	Grants received			Grant released
	Central	State	Total	
Sampoorna Gramin Rojgar Yojana (2006-08)	873.55	286.66	1,160.21	1,160.21
Swaran Jayanti Gram Swarajgar Yojana (2006-10)	1246.24	419.01	1665.25	1665.25
Indira Awas Yojana (2006-10)	2873.08	944.93	3818.01	3818.01
National Rural Employment Guarantee Yojana (2006-10)	10753.92	1183.26	11937.18	11937.18
Pradhan Mantri Gramin Sadak Yojana (2008-10)	4486.95	nil	4486.95	4486.95
Rural Drinking Water Scheme (2008-10)	1493.90	1078.96	2572.86	2572.86
National Health Insurance Scheme (2008-10)	119.44	32.75	152.19	152.19
Bio gas (2008-10)	1.32	nil	1.32	1.32
Total	21848.4	3945.57	25,793.97	25,793.97

(Source: Commissioner Rural Development Lucknow)

1.5.4 Revenue realized from own resources

The PRIs generate revenues by charging rent, taxes, fees, etc., from the people. Accordingly, the Government fixed (2007-10) targets of revenue realization for them. **Table 6** brings out the targets fixed and revenue realised during 2007-10.

Table 6: Revenue realized from own resources

(₹ in crore)

Panchayati Raj Institutions and number in bracket	2007-08		2008-09		2009-10	
	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)
ZPs (71)	83.42	86.37 (104)	93.86	88.22 (94)	103.26	100.60(97)
GPs (51,914)	4.88	4.39 (90)	4.53	3.58 (79)	4.42	3.13(71)
Total	88.30	90.76 (103)	98.39	91.80 (93)	107.68	103.73(96)

(Source: Director, Panchayati Raj and Deputy Director, Zila Panchayat at Lucknow)

Above table reveals that shortfalls in revenue realization ranged between 29 per cent and three per cent during 2009-10.

Further, 29 ZPs raised (2008-09) demands for ₹ 74.96 crore including ₹ 36.17 crore on account of arrears of rent, license fees, etc. from the tenants, licenses and contractors, etc. (*Appendix-1.1*). Out of this, ₹ 37.25 crore was recovered and the remaining ₹ 37.71 crore was still lying unrecovered.

1.6 Overall financial position

As mentioned at preceding paragraph 1.3 and succeeding paragraph 1.10, neither the database on finances of the PRIs was created nor were the accounts prepared. As a result, the overall financial position of the PRIs depicting the opening balances, receipts, expenditure and closing balances could not be ascertained.

During 2009-10, records of 3,487 PRIs were test checked in audit. The financial position of these institutions for the last three years is given in **Table 7**.

Table 7: Financial position of audited units during last three years

(₹ in crore)

Year	Number of PRIs checked	Opening balances	Funds received	Total funds received	Expenditure (per cent in bracket)	Closing balances
Zila Panchayats						
2006-07	52	338.56	476.91	815.47	497.80(61)	317.67
2007-08	52	319.41	589.80	909.21	484.00(53)	425.21
2008-09	55	439.04	993.15	1432.19	1022.87(71)	409.32
Kshetra Panchayats						
2006-07	139	51.19	160.57	211.76	151.53(72)	60.23
2007-08	130	53.33	282.39	335.72	274.59(82)	61.13
2008-09	300 ³	156.36	532.09	688.45	503.09(73)	185.36
Gram Panchayats						
2006-07	2430	39.18	135.36	174.54	132.32(76)	42.22
2007-08	4525	87.28	376.92	464.20	346.73(75)	117.47
2008-09	3003 ⁴	71.85	363.89	435.74	307.84(71)	127.90

(Source: Audit Inspection Reports)

An analysis of the table reveals that PRIs underutilized the funds. The major defaulters were the ZPs where ₹ 409.32 crore was lying unutilized at the end of March 2009. As a result, funds continued to accumulate, indicating poor planning.

1.7 District Planning Committees

Under Sections 63 and 86 of the Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam*, 1961, the ZPs were to prepare each financial year a development programme for the district as a whole incorporating the development plan for KPs and GPs and submit it for approval to the District Planning Committee which was to be constituted in terms Uttar Pradesh District Planning Committee Act, 1999. Such committees were constituted in April 2008 and made functional from December 2009. However, development plans of KPs and GPs were not included in District Development Plans of the 55 ZPs test checked during 2009-10.

³ Financial position of 7out of 307 KPs was not prepared by the units, hence not included in the table.

⁴ Financial position of 122 out of 3125 GPs was not prepared by the units, hence not included in the table.

1.8 Budgeting and Budgetary Process

Budgeting and budgetary process entails preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it was kept within the authorized grants or appropriations. With this objective, each Panchayati Raj Institution was to prepare the annual budget in terms of Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Manual*⁵. It was, however, noticed that this was not prepared in any of the 3125 *GPs* and 307 *Kshetra Panchayat* test checked during 2009-10.

1.9 Accounting arrangements

The Comptroller and Auditor General of India, on the recommendation of Eleventh Finance Commission, prescribed (2002) Budget and Accounting formats for PRIs. Although the Government accepted (March 2003) the recommendation but *ZPs* and *KPs* did not maintain their accounts in the formats prescribed. The *GPs*, although maintained their accounts in the formats prescribed through the Chartered Accountants but their accounts were in arrear for three to six years due to delayed engagement of the Chartered Accountants and also non- submission of records by the *GPs* to the engaged Chartered Accountants.

Twelfth Finance Commission observed that accurate information on the finances of the PRIs were not available at the state level and accordingly recommended that credible information on the finances of the PRIs at the State level should be maintained so as to assess actual requirement of funds for each tier of the PRIs. However, in the absence of accounts at GP/ZP level, these accounts were not compiled at district and State levels. As a result, fund allocations were not based on 'need-based assessment'.

Section 84 (2) of Uttar Pradesh Zila Parishads and Kshetra Samities (Budget and General Accounts) Rules, 1965 provided that each item of receipts and expenditure should be compared with the treasury/ bank statements at the end of

⁵ Section 110 and 115

each month and differences, if any, should be reconciled. However, test check revealed (2009-10) that 10 ZPs and 17 KPs had a un-reconciled difference of ₹ 9.72 crore and ₹ 1.15 crore respectively (*Appendix-1.2*) as on 31 March 2009. The un-reconciled differences were fraught with risk of misuse / misappropriation of funds.

1.10 Audit arrangements

The Chief Audit Officer, Co-operative Societies and Panchayats, is the primary auditor for all the three tiers of the PRIs. However, a large number of PRIs remained unaudited due to non-submission of records during 2007-10. The details are given in **Table 8**.

Table 8: Position of units proposed, audited and those lying in arrear

Name of the PRIs	Proposed		Audited		Arrear (<i>per cent</i>)	
	Against current	Against arrear	Against current	Against arrear	Against current	Against arrear
2007-08						
ZPs	70	161	23	30	47(67)	131(81)
KPs	809	4680	22	27	787(97)	4653(99)
GPs	51772	184795	14623	11006	37149(72)	173789 (94)
2008-09						
ZPs	70	175	24	48	46(66)	127(73)
KPs	809	5430	36	90	773(96)	5340 (98)
GPs	51772	213227	18868	18490	32904(64)	194737 (91)
2009-10						
ZPs	70	169	29	58	41(59)	111 (66)
KPs	810	6091	73	291	737(91)	5800 (95)
GPs	51977	224725	23988	28670	27989(54)	196055 (87)

(Source: The Chief Audit Officer, Co-operative Societies and Panchayats)

As majority of the PRIs remained unaudited during the periods 2007-10, the financial data were not authenticated and thus not reliable.

1.11 Position of entrustment of audit/ Technical Guidance and Supervision to Comptroller and Auditor General of India

The Eleventh Finance Commission recommended exercising of Technical Guidance and Supervision over the proper maintenance of accounts of PRIs and their audit by the Comptroller & Auditor General of India. Consequently, the Government entrusted (October 2001) audit of local bodies to the Comptroller &

Auditor General of India under section 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Accordingly, audit of PRIs were conducted and 15,876 Inspection Reports containing 12,364 paragraphs were sent (2003-10) to the Chief Audit Officers for pursuance. However, these remained un-replied (December 2010).

During 2009-10, 55 ZPs, 307 KPs and 3,125 GPs were test checked and 2,786 paragraphs on poor financial management and financial irregularities resulting into infructuous and excess expenditures, diversion of funds and loss of revenue, etc., were communicated to the Head of the Offices, Director, Panchayati Raj and Chief Audit Officer, Co-operative Societies and Panchayats. However, the compliance of these paragraphs was awaited (December 2010).

1.12 Other points

Second State Finance Commission made 245 recommendations mainly on the issues relating to timely release of the grants, enhancement in PRI's own resources, transfer of income of *Zila Panchayat* to *GPs*, resource mobilization of the PRIs, etc. The Government accepted 133 recommendations in *toto* and 70 partially but did not accept 42 which mainly related to imposing property tax in rural areas, revision of rates of land revenue and enhancing income of PRIs through license, etc.

1.13 Conclusion

Thus, the budgeting and budgetary process was not followed and the accounting records were not maintained in the prescribed formats as a result of which true and fair view of income and expenditure of the PRIs were not available. The arrears in audit rendered the available financial data unreliable. The database at any of the three levels, viz., district, State and Central was also not developed despite funds availability. The District Planning Committees were not functional even after lapse of 11 years of enactment of the District Planning Committee Act, 1999 as a result of which their developmental activities could not be planned and monitored at district level.