

CHAPTER I

ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

SECTION A

CHAPTER I

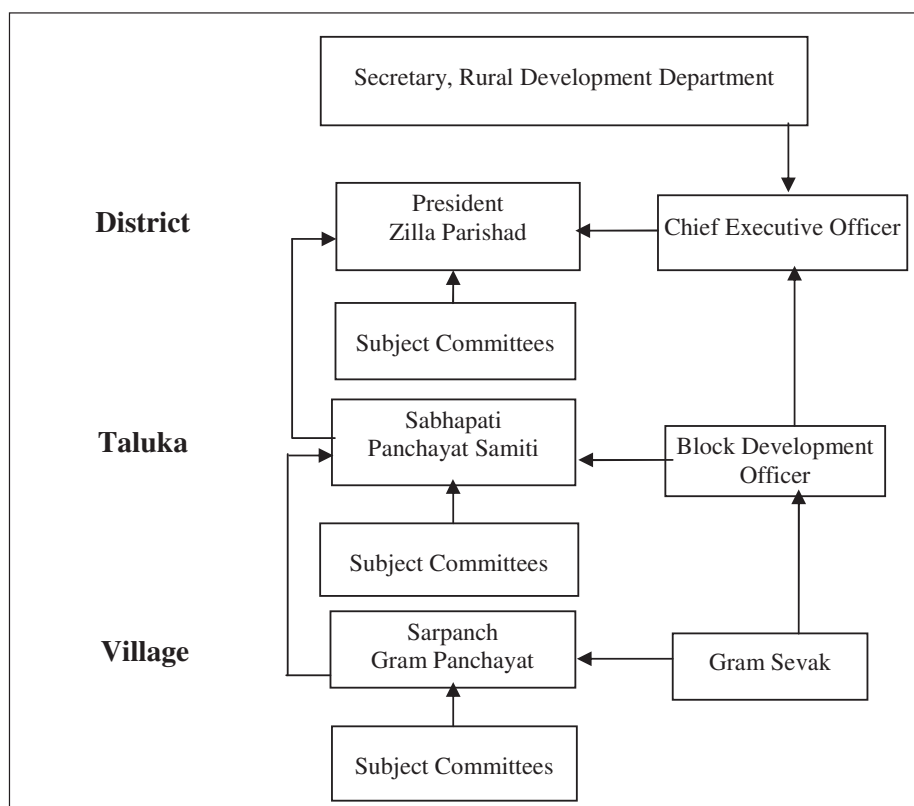
ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

1.1.1 In conformity with the provisions of the 73rd 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 were established in the State. As per the 2011 Census, the total population of the State was 11.24 crore, of which rural population was 6.15 crore (54.77 per cent).

1.2 Organisational Set up

1.2.1 The organizational 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 27920¹ 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 at GP level. However, sanctioned strength of Gram Sevaks and Village Development Officers were 23368 which shows that even one Gram Sevak post was not sanctioned for each GP. The persons-in-position was 22013 only with shortage of 1355 as of January 2012. 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.

¹ As per information furnished by Rural Development Department, Government of Maharashtra in December 2011.

1.3.6 The broad accountability structure in PRIs is as follows:

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

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 for plan and non-plan state schemes, assigned tax and non-tax revenues, receipts of ZPs, interest on investments, etc.

1.4.2 The cash grants are released to the ZPs through Budget Distribution System (BDS) by the respective administrative departments in accordance with Government resolution dated 15-10-2008.

1.4.3 Introduction of distribution of cash grants however does not dispense away with the system of assessment of grants of different departments in ZPs by the administrative departments.

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

Article 243-I of the Constitution requires that State Finance Commission (SFC) be appointed at the ‘expiration of every fifth year’

The Second Maharashtra 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 Second 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. Following table indicates the total revenue of the State (tax and non-tax) *vis-a-vis* allocation to the PRIs as well as to Urban LBs during 2006-07 to 2010-11:

(₹ in crore)

Sr. No.	Head	2006-07	2007-08	2008-09	2009-10	2010-11*
1	State total revenue (Tax and Non-tax revenues)	47617.49	64476.42	61819.88	67458.95	83252.14
2	Amount required to be allocated as per SSFC to LBs (40 per cent)	19047.00	25790.57	24727.95	26983.58	33300.86
	Allocation to PRIs	7321.27	8007.34	10501.98	11726.62	13260.93
	Percentage of allocation to State revenue	15.38	12.42	16.99	17.38	15.93
3	Allocation to Urban Local Bodies (ULBs)	2652.27	1351.25	1651.47	1708.89	4350.04 ²
	Percentage of allocation to State revenue	5.57	2.10	2.67	2.53	5.23
	Total	9973.54	9358.59	12153.45	13435.51	17610.97
4	Percentage of allocation to State revenue (Tax and Non-tax revenues)	20.95	14.51	19.66	19.92	21.16

(* Source: CAG's AR (State Finances) 2010-11, Government of Maharashtra)

The Rural Development Department, GOM (December 2011) stated that although the recommendations made by SSFC to allocate 40 per cent of State revenue to Local Bodies was not accepted by state government, the concerned Administrative Departments have been instructed to allocate maximum portion of revenue to PRIs. During the year 2011-12, provision of ₹ 20457 crore is being made for Transfer and Agency Schemes and ₹ 5067 crore for Centrally Sponsored Schemes not included in the State Budget.

The Third SFC was constituted in January 2005 and submitted its report in June 2006 and the period covered from 2006-2007 to 2010-11. Although the tenure of Third SFC is completed, the Report has not been presented to the Legislature (May 2012).

1.6 Transfer of functions and functionaries

1.6.1 The 73rd 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 As on 31 March 2011 the State Government has transferred 11³ functions and 15480³ functionaries to PRIs. Non-transfer of functions and functionaries has been commented in earlier two Audit Reports also.

² Huge variation due to misclassification in previous year (as mentioned in CAG's AR (State Finances) 2010-11, Government of Maharashtra)

³ As furnished by Dy. Secretary, RD&WC Department vide letter dtd. 12 December 2011

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 2006-07 to 2010-11 was as follows. PSs accounts were incorporated in ZP Accounts.

(₹ in crore)

Year	Receipts						Expenditure		
	Own revenue ⁴	Government Grants	Other revenue	Total revenue	Capital receipts	Total receipts	Revenue	Capital	Total
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
2010-11	627	17721	307	18655	3939	22594	17454	4548	22002

(Source: figures furnished by ZPs)

Capital Expenditure

Increase in capital expenditure indicates impetus given to infrastructure development activities in PRIs. However, while revenue expenditure increased from ₹ 8161 crore in 2006-07 to ₹ 17454 crore (114 per cent) in 2010-11, capital expenditure increased from ₹ 2314 crore to ₹ 4548 crore (97 per cent) during the same period. To that extent expenditure merely has not been incurred on activities that will provide durable and long term assets to these institutions.

(B) Gram Panchayat

(₹ in crore)

Year	Total Receipts					Total Expenditure
	Government grants	Taxes	Contributions	Other receipts	Total receipts	
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	627	525	155	285	1592	1359
2010-11 ⁵	618	745	158	193	1714	1483

(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 2008-09 to 2010-11.

⁴ excludes opening balance

⁵ Figures furnished by Deputy CEO of Gram Panchayats of all Zilla Parishads (excluding Akola, Beed, Nanded, Parbhani and Washim) though reminded repeatedly with the latest reminder on 6 January 2012.

(₹ in crore)

Sr. No.	Components	Gram Panchayats expenditure			ZPs & PSs expenditure		
		2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
1	Education	32	29	55	4768	7280	8444
2	Health and Sanitation	312	297	359	1410	1481	1949
3	Public Works	398	481	466	836	1092	1626
4	Social Welfare	79	66	140	443	523	935
5	Irrigation	6	9	29	449	429	823
6	Animal Husbandry	7	6	6	160	213	256
7	Agriculture	3	2	6	126	180	277
8	Public lighting	43	34	34	22	56	47
9	Forests	-	-	8	5	5	20
10	Administration	235	206	222	907	1166	1368
11	Other expenditure	129	207	67	2535	2885	5002
12	Capital expenditure	8	22	5	3118	3365	4981
TOTAL		1252	1359	1397	14779	18675	25728

(Source: Figures furnished by ZPs)

The expenditure on GPs has marginally increased by 2.80 *per cent* in comparison to ZPs and PSs from the previous year. Except in Yavatmal, the capital expenditure in GPs is 'Nil'. It shows that no new assets has been created during the year 2010-11, although the Government grants of ₹ 618 crore was provided under different schemes.

1.7.3 The works undertaken by the ZPs comes under the categories of (1) ZPs own schemes (2) Schemes transferred/funded by the State Government. (3) Schemes funded by other agencies. From the information received from 31 ZPs for the year 2010-11, these ZPs incurred an expenditure of ₹ 19805.97 crore (₹ 15680.97 crore on transferred scheme, ₹ 1644.78 crore on agency scheme and ₹ 2480.22 crore on ZPs own scheme). District-wise split up of expenditure incurred on transferred, agency and ZPs own schemes have been given in **Appendix II**.

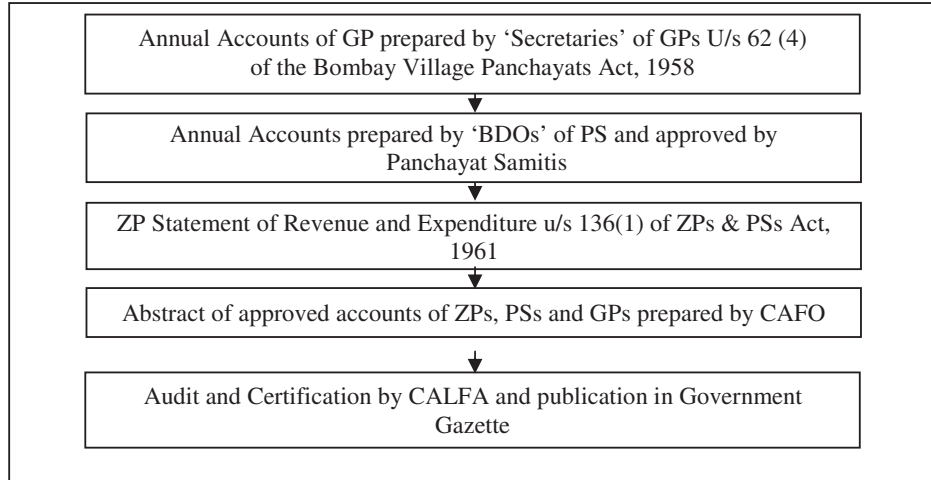
1.8 Accounting arrangements

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. 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 2008 and Chapter I of the Report of the Comptroller and Auditor General of India (Local Bodies) Government of Maharashtra for the period ended 31 March 2010.

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



1.8.4 The prescribed date for finalisation of annual accounts of ZPs for a financial year is 30 September of the following year and accounts of ZPs are required to be published in the Government Gazette by 15 November of the year. Accordingly, the accounts for 2010-11 should have been finalized by September 2011 and published in Government Gazette by November 2011. However, it was observed from the information received from the department (December 2011) that the accounts for the year 2008-09 have been published in the Government Gazette. Finalisation of annual accounts for the year 2009-10 and 2010-11 is in progress.

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. The increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriation and other irregularities.

1.8.6 Non-adoption of format of accounts prescribed by Comptroller and Auditor General of India

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 (November 2011) Maharashtra Zilla Parishads and Panchayat Samitis Account Code (MZP&PS) and Bombay Village Panchayat (Budget & Accounts) Rules. However, the department replied (November 2011) that all the PRIs are ordered to maintain the accounts in prescribed format of Comptroller and Auditor General of India.

1.8.7 Pending assessment of grants

The grants released by the Government to ZPs through BDS were required to be assessed by the Heads of the Administrative Departments by July every year according to Government orders (May 2000). They were to inform RD&WCD about the amounts recoverable from/payable to ZPs for adjustment for release of further grants.

It was, however, observed that in respect of 10 departments of twenty nine⁶ ZPs, there were arrears in assessment of grants as follows:

Sr. No.	Name of department	Period of arrears
1	Education	1998-2011
2	Agriculture	2004-2011
3	Social Welfare	1999-2011
4	Animal Husbandry	2001-2011
5	Public Health	2000-2011
6	Family Welfare	1997-2011
7	Water Supply and Sanitation	1999-2011
8	Women and Child Welfare	1992-2011
9	Minor Irrigation	1998-2011
10	Public works	1999-2011

(Source: Figures furnished by ZPs)

Government stated that (December 2011) the cash grants were released to the ZPs through BDS by the respective Administrative Departments and all the Administrative Departments have been directed to clear the arrear of pending assessment of grants.

1.9 Creation of database on finances of PRIs

Creation of database on finances of PRIs at grass root level was accorded high priority by Twelfth Finance Commission (TFC). Accordingly, the allocation of ₹ 21.84 crore is utilized fully for the creation of Panchayati Raj Portal. The objective of this project is to facilitate better financial management of PRIs by bringing about transparency accountability in the maintenance of the accounts thereby leading to better credibility and ultimately strengthening of PRIs. The project has been completed and the detailed information of all the PRIs and State schemes in Maharashtra is captured, verified and uploaded in PRIAsoft module on the website i.e. www.accountingonline.gov.in. Regular meetings were conducted for discussing the problems faced, if any in uploading the data in ZPs. The database in the PRIAsoft has been loaded, but the data has not

⁶ Ahmednagar, Akola, Amravati, Aurangabad, Buldhana, Chandrapur, Dhule, Gadchiroli, Gondia, Hingoli, Jalgaon, Jalna, Kolhapur, Latur, Nagpur, Nanded, Nandurbar, Nashik, Osmanabad, Parbhani, Pune, Ratnagiri, Raigad, Sangli, Satara, Sindhudurg, Solapur, Thane and Wardha

been updated from November 2011 by some ZPs, Talukas and GPs.

1.10 District Planning Committee

After formation of Maharashtra State in 1960, Government has adopted a policy of balanced development on the basis of a district as a unit for formation of five year plans and Annual Plans. For this purpose District Planning and Development Councils (DPDCs) had been constituted in every district. In Maharashtra, DPDCs existing after formation of the State in 1960 were replaced by District Planning Committees (DPCs) constituted as per Article 243 of Constitution of India under the Maharashtra District Planning Committee (Constitution and Functions) Act, 1998. This Act came into force from 15 March 1999. The main objective of this law was to consolidate the plans prepared by Panchayats and Municipalities in the district and to prepare a draft development plan for the district on a whole.

The DPCs are concerned with district level programme. These programs are basically located in or benefit of which exclusively goes to district which need to be planned at local level for optimum exploitation of the natural and other sources of district.

Government stated (December 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 (Mumbai and Mumbai Suburban) where elections were not held were functioning with nominated and ex-officio members.

1.11 Twelfth and Thirteenth Finance Commission Grants

The State Government received ₹ 1983 crore in 10 installments as TFC grants during 2005-06 and 2009-10. Out of this as expenditure of ₹ 1981.70 crore was incurred leaving a balance of ₹ 1.30 crore by nine⁷ ZPs (December 2011).

From Thirteenth Finance Commission grants, the State Government received two installments amounting to ₹ 513.68 crore up to 31 March 2011 of which ₹ 131.12 crore had been spent as of 1 November 2011.

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 the 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 and 2008-09 were prepared by the CALFA and presented to the State Legislature in July 2010 and August 2011 respectively.

1.12.2 Audit by Comptroller and Auditor General of India

The Comptroller and Auditor General of India (CAG) conducts audit of ZPs

⁷ Ahmednagar, Amravati, Bhandara, Buldhana, Dhule, Hingoli, Ratnagiri, Solapur, Washim

and PSs under Section 14 of the CAG's (DPC) Act, 1971. Section 142 of the Maharashtra ZP and PS Act, 1961 also contains an enabling provision for audit by the CAG of India.

Audit of GPs was also entrusted (March 2011) to the CAG under Technical Guidance and Supervision by the Government of Maharashtra (GOM) under Section 20(1) of CAGs (DPC) Act.

1.12.3 Formation of District Level Audit Committees

The Government directed (March 2001) ZPs to constitute District Level Audit Committees (DLACs) for discussion and settlement of outstanding audit objections raised by CALFA and Accountant General. The State Government stated (December 2011) that as on 31 March 2011, DLAC had been formed in all the 33 districts. 37105⁸ paras had been cleared during 2009-10. The information has not been updated for the year 2010-11 by Rural Development Department, Mantralaya. Department replied (December 2011) that District Audit Committees were to be formed by all ZPs for settlement of outstanding objections vide Government circular dated 20 December 2010.

1.12.4 Outstanding Paras from CALFA Report

As per the report of CALFA for the year 2007-08, 100109 paras were pending for settlement for the period from 1962 to 2008. On this being pointed out Department (December 2011) stated that 17328 paras were settled in 2008-09 and 30191 paras were settled in 2009-10.

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 November 2011, 3238 Inspection Reports containing 9882 paras of ZPs, PSs and GPs issued by audit were pending settlement despite of nine ACMs held resulting settlement of 1240 paras.

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

⁸ Accountant General: 3220; Local Fund Account: 30191 and Panchayati Raj Committee: 3694

Year	Inspection Reports	Paragraphs
Up to 2007-08	1717	2581
2008-09	579	3027
2009-10	555	2362
2010-11	387	1912
Total	3238	9882

1.13 Conclusion

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

- allocations to the LBs were meager at 21.16 *per cent* as against 40 *per cent* recommended by Second Maharashtra State Finance Commission;
- out of 29 functions listed in the XI Schedule of the Constitution of India, only 11 functions were transferred to PRIs;
- None of the ZPs have finalized the accounts for the year 2010-11 till date; non-finalisation of accounts is fraught with risk of misappropriation and other irregularities.
- Due to non-amendment of the MZP&PS Account Code, maintenance of accounts in the Modified Accounting Structure was not done in any of the ZPs.

The matter was referred to Government in December 2011. Reply has not been received (May 2012).