

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 Panchayati Raj Institution system of elected bodies. The amended Act envisaged decentralisation 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 in local governance and effective implementation of rural development programmes. The overall supervision, co-ordination, planning and implementation of developmental schemes vested with the ZP.

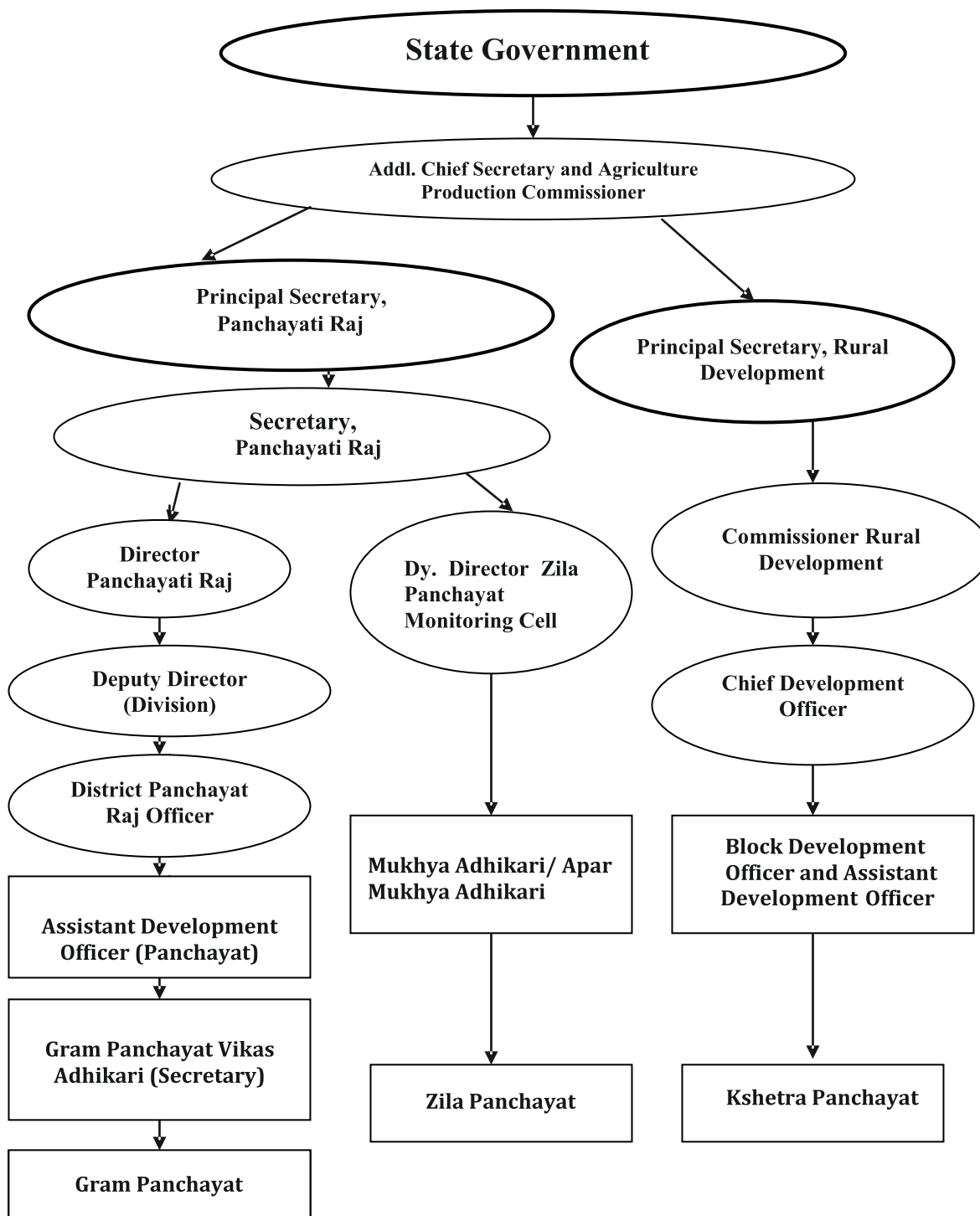
The total rural population of the State, as per Census 2011 (provisional), was 15.51 crore (13.17 crore as per census 2001). At the end of March 2011, there were 72 ZPs¹, 821 KPs and 51,914 GPs in the State.

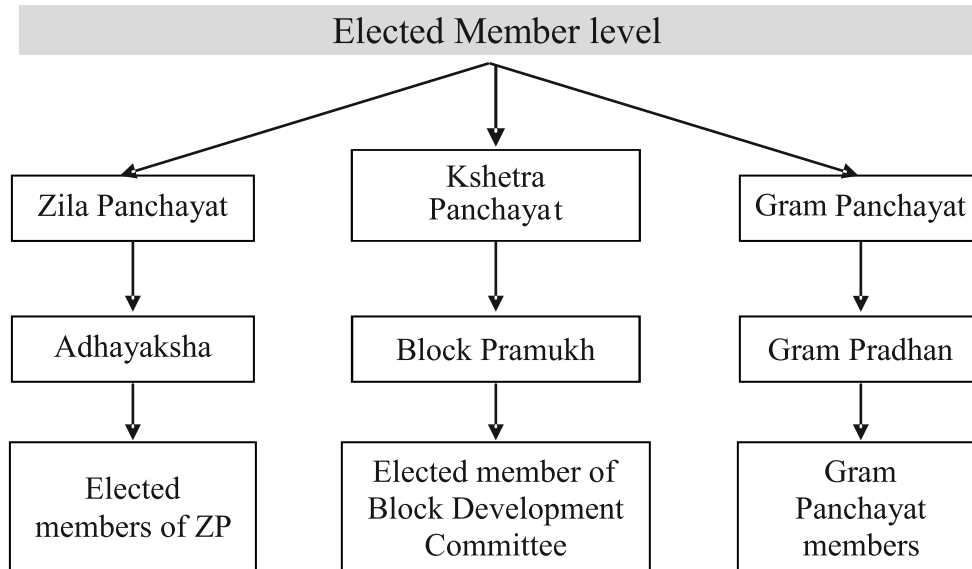
The last election to the elected bodies of the aforesaid PRIs was held during October-November 2010 in which 51,914 *Gram Pradhans* for GPs, 821 *Pramukhs* for KPs and 72 *Adhyakshas* for ZPs were elected.

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

1.2 Organisational set-up

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





1.3 Sources of revenue

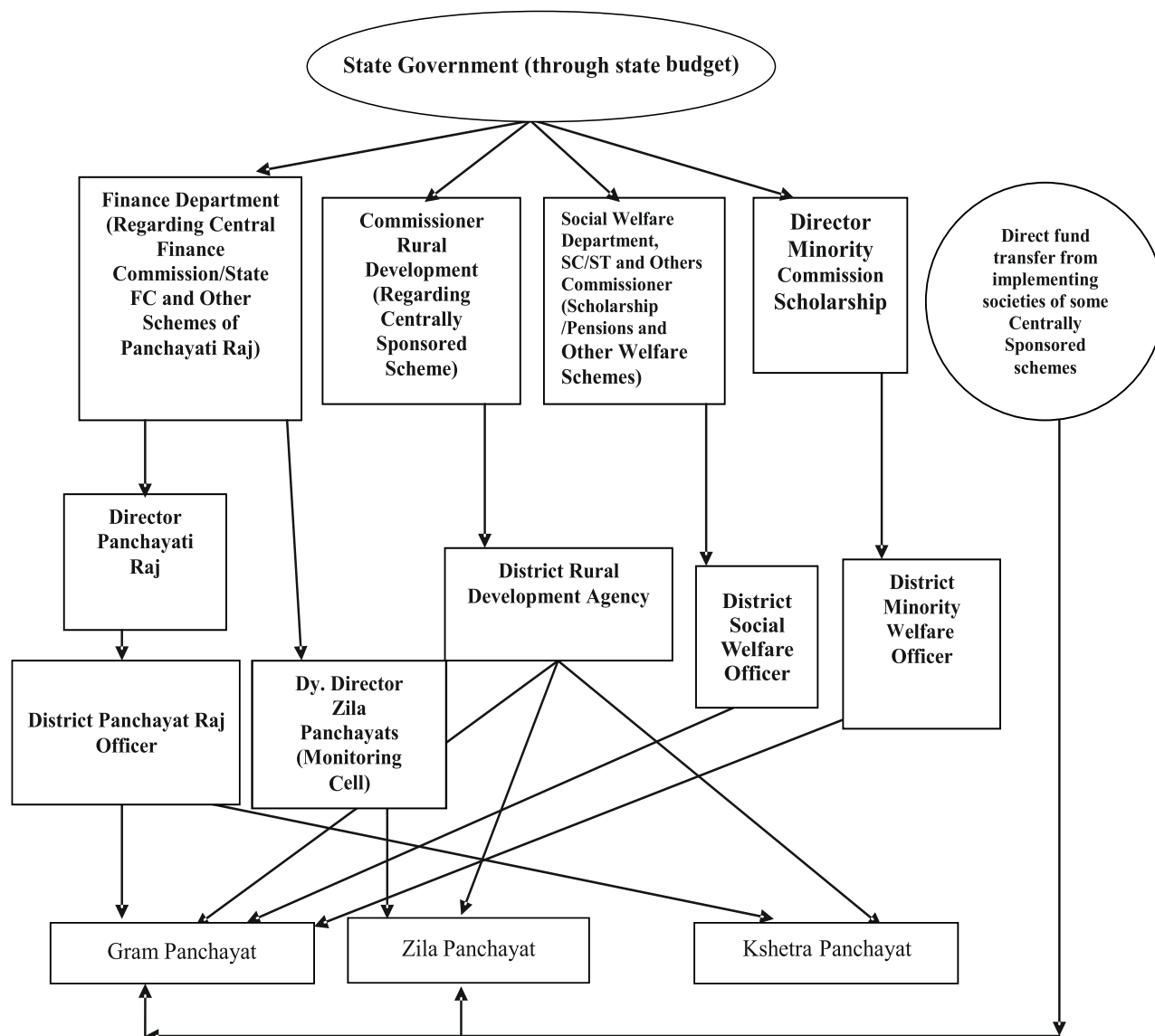
1.3.1 Flow of revenues

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

- grants assigned under the recommendations of the Twelfth and Thirteenth Finance Commission;
- 5.5 *per cent* of net proceeds of State's net tax revenue as per recommendations of the Third 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.

1.3.2 Funds flow chart

The flow of funds to the PRIs at the grass root level is depicted in a chart as follows:



1.3.3 Aggregate receipts

The position of aggregate grants received by the PRIs under the recommendations of the Twelfth and Thirteenth Finance Commission, the State Finance Commission, grants for Centrally Sponsored Schemes and revenues realized from their own resources during 2006-11 is as under in **Table-1**.

Table 1: Aggregate receipts of the Panchayati Raj Institutions

(₹ in crore)

Year	Twelfth and Thirteenth Finance Commission	State Finance Commission	Centrally Sponsored Schemes	Own resources	Total
2006-07	585.60	1,169.05	1,698.37	73.90	3,526.92
2007-08	585.60	1,567.77	3,340.80	90.75	5,584.92
2008-09	587.28	1,281.68	8,679.89	91.80	10,640.65
2009-10	585.60	1,262.07	12,119.67	103.73	14,071.07
2010-11	911.29	2,376.94	10,737.28	128.82	14,154.33
Total	3,255.37	7,657.51	36,576.01	489.00	47,977.89

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

It would be seen from the above table that there was increasing trend in receipts during 2006-11.

1.3.4 Devolution of State Finance Commission grant

Second Finance Commission recommended that 5 per cent of the net proceeds of total tax revenue should be devolved to the PRIs. Further, Third State Finance Commission recommended that 5.5 per cent of the net proceeds of total tax revenue should be devolved to the PRIs. The devolution of funds and actual release of funds to PRIs by the Government during the period 2006-11 is as under 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	Shortfall /Excess	Per cent
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	1,282	(-)151	(-) 11
2009-10	33,878	1,694	1,262	(-)432	(-) 26
2010-11	43,464	2,391	2,377	(-)14	(-)01
Total	1,53,958	7,916	7,658	(-)258	(-)10

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

While there was an overall short devolution of ₹ 258 crore during the period 2006-11, the maximum shortfall was noticed during the year 2009-10 when only ₹ 1,262 crore was devolved against ₹ 1,694 crore. This deprived the PRIs to plan and undertake developmental activities in their respective areas.

1.4 Utilization of funds

1.4.1 Utilization of grants received under Twelfth and Thirteenth Finance Commission

The position of funds available under Twelfth and Thirteenth Finance Commission, utilization and non-utilization during the period 2006-11 is as under in **Table-3**.

Table 3: Utilization of Fund received under 12th & 13th Finance Commission

(₹ in crore)

Year	Total funds available	Funds utilized	Funds not utilized
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
2010-11	911.29	637.90	273.39
Total	3,255.37	2,913.73	341.64

(Source: Director, Panchayati Raj, Lucknow.)

During the year 2009-10 ₹ 5.35 crore lapsed to Government account due to non drawal from the treasury at Directorate level. The analysis of above further revealed that during the year 2010-11 ₹ 273.39 crore remained unutilized.

1.4.2 Utilization of State Finance Commission Grant

The position of grants available under State Finance Commission, utilization and non-utilization for 2006-11 is as under 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)
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	2,602.88	1,280.71(49)	1,322.17(51)
2009-10	1,322.17	1,262.07	2,584.24	1,168.01(45)	1,416.23(55)
2010-11	1,416.23	2,376.94	3,793.17	1,098.84 (29)	2,694.34 (71)

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

It would be seen from above 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 and in 2010-11 it increased to the tune of ₹ 2,694.34 crore (71 per cent). Evidently, people were deprived of benefits of developmental activities of basic amenities like road, water supply and sanitation, etc.

1.4.3 Grants for implementation of Centrally Sponsored Schemes

PRIs were the works executing agencies of Centrally Sponsored Schemes at grass root level. The Government of India and the State Government released funds for their implementation. The position of grants received by the PRIs during the period 2006-11 for implementation of Centrally Sponsored Schemes is as under 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 Swarojgar Yojana (2006-11)	1,589.29	520.00	2,109.29	2,109.29
Indira Awas Yojana (2006-11)	4,022.98	1,280.05	5,303.03	5,303.03
National Rural Employment Guarantee Yojana (2006-11)	16,020.52	1,683.16	17,703.68	17,703.68
Pradhan Mantri Gramin Sadak Yojana (2008-11)	5,795.78	-	5,795.78	5,795.78
Rural Drinking Water Scheme (2008-11)	2,342.58	1,720.64	4,063.22	4,063.22
National Health Insurance Scheme (2008-11)	281.78	110.31	392.09	392.09
Bio gas (2008-11)	3.95	-	3.95	3.95
Total	30,930.43	5,600.82	36,531.25	36,531.25

(Source: Commissioner, Rural Development Lucknow; Chief Executive Officer, RSBY, Lucknow)

1.4.4 Revenue realized from own resources

The PRIs generate revenues by charging rent, taxes, fees, etc., from the people. Accordingly, the Government fixed (2008-11) targets of revenue realization for them. The targets fixed by the Government and revenue realised there against during the period 2008-11 is as under in **Table-6**.

Table-6: Revenue realized from own resources.

(₹ in crore)

Panchayati Raj Institutions (number of ZPs and GPs)	2008-09		2009-10		2010-11	
	Target	Achievement (per cent)	Target	Achievement (per cent)	Target	Achievement (per cent)
Zila Panchayats (ZP) (72)	93.86	88.22 (94)	103.26	100.60 (97)	115.02	128.82 (112)
Gram Panchayats (GP) (51,914)	4.53	3.58 (79)	4.42	3.13 (71)	4.96	2.54 (51)
TOTAL	98.39	91.80 (93)	107.68	103.73 (96)	119.98	131.36 (109)

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

Above table reveals that shortfall in revenue realization was in decreasing trend during 2008-11 in GPs. Further, 32 ZPs raised (2009-10) demands for ₹ 48.84 crore including ₹ 25.82 crore on account of arrears of rent, license fees, etc. from the tenants, licensees and contractors, etc. (*Appendix-1.1*). Out of this, ₹ 19.25 crore was only recovered and the remaining ₹ 29.59 crore was still lying unrecovered.

1.5 Overall financial position

The database on finances of the PRIs was not maintained. As a result, the overall financial position of the PRIs depicting the opening balances, receipts, expenditure and closing balances could not be ascertained.

During 2010-11, records of 2223 PRIs were test checked in audit. The financial position of institutions test checked during 2008-11 is as under 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)	Closing balances
Zila Panchayats (ZPs)						
2007-08	52	319.41	589.80	909.21	484.00 (53)	425.21
2008-09	55	439.04	993.15	1,432.19	1,022.87 (71)	409.32
2009-10	55	381.80	682.90	1,064.70	646.94 (61)	417.76
Kshetra Panchayats (KPs)						
2007-08	130	53.33	282.39	335.72	274.59 (82)	61.13
2008-09	300	156.36	532.09	688.45	503.09 (73)	185.36
2009-10	147 ²	86.13	248.56	334.69	246.26 (74)	88.43
Gram Panchayats (GPs)						
2007-08	4525	87.28	376.92	464.20	346.73 (75)	117.47
2008-09	3003	71.85	363.89	435.74	307.84 (71)	127.90
2009-10	1891 ³	78.85	252.95	331.80	220.41 (66)	111.39

(Source: Register of AIR 2010-11)

An analysis of the above table revealed that PRIs underutilized the funds. The major defaulters were the ZPs where ₹ 417.76 crore was lying unutilized at the end of March 2010. As a result, funds continued to accumulate, indicating poor planning.

1.6 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 of Uttar Pradesh District Planning Committee Act, 1999. Such committees were constituted in April 2008 and made functional from December 2009.

² Financial position of three out of 150 KPs was not prepared by the units, hence not included in the table.

³ Financial position of 127 out of 2018 GPs was not prepared by the units, hence not included in the table.

1.7 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*⁴. It was, however, noticed that this was not prepared in any of the 2018 *GPs* and 150 *KPs* test checked during 2010-11.

1.8 Accounting arrangements

➤ Adoption of account formats prescribed by the Comptroller and Auditor General of India

The PRIs are maintaining their accounts in the formats prescribed under Uttar Pradesh Kshetra Panchayat and Zila Panchayat Act 1961. The Eleventh Finance Commission had recommended exercising control and supervision over maintenance of accounts of all the three tiers of PRIs by the CAG. The CAG and Ministry of Panchayati Raj, Government of India has recommended Model Accounting Structure for PRIs in 2009. The Accounting Software PRIAsoft prescribed by the Ministry of Panchayati Raj, Government of India has been adopted by the State Government and the State Government is in the process of implementing it in all the three tiers of PRIs.

➤ Non reconciliation of cash balances

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 each month and differences, if any, should be reconciled. However, test check (2010-11) revealed that 7 *ZPs* and 18 *KPs* had an un-reconciled difference of ₹ 5.90 crore and ₹ 4.17 crore respectively (*Appendix-1.2*) as on 31 March 2010. The un-reconciled differences were fraught with risk of misuse/misappropriation of funds.

1.9 Audit arrangements

The Chief Audit Officer, Co-operative Societies and Panchayats, is the primary auditor for all the three tiers of the PRIs.

⁴ Section 110 and 115

However, a large number of PRIs remained unaudited due to non-submission of records during 2008-11. The details of audit of PRIs proposed, PRIs actually audited and audit of PRIs in arrears are given in **Table-8**.

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

Name of the PRIs	Proposed		Audited		Arrear (per cent)	
	Against current	Against arrear	Against current	Against arrear	Against current	Against arrear
2008-09						
ZPs	70	175	24	48	46 (66)	127 (73)
KPs	809	5430	36	90	773 (96)	5340 (98)
GPs	51,772	2,13,227	18,868	18,490	32,904 (64)	1,94,737 (91)
2009-10						
ZPs	70	169	29	58	41 (59)	111 (66)
KPs	810	6,091	73	291	737 (91)	5,800 (95)
GPs	51,977	2,24,725	23,988	28,670	27,989 (54)	1,96,055 (87)
2010-11						
ZPs	70	149	30	36	40 (57)	113 (76)
KPs	809	6,584	58	194	751 (93)	6,390 (97)
GPs	51,944	2,21,048	19,820	15,485	32,124 (62)	2,05,563 (93)

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

As majority of the PRIs remained unaudited during the periods 2008-11, the financial data of these PRIs were not authenticated and thus not reliable.

1.10 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 and Auditor General of India. Consequently, the Government entrusted (October 2001) audit of local bodies to the Comptroller and 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 18099 Inspection Reports containing 13666 paragraphs were sent (2003-11) to the Chief Audit Officer for pursuance. However, these remained un-replied (December 2011).

During 2010-11, 55 ZPs, 150 KPs and 2018 GPs were test checked and 1302 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 2011).

1.11 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 were mainly related to imposing property tax in rural areas, revision of rates of land revenue and enhancing income of PRIs through license, etc.

1.12 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 for the same were available. The District Planning Committees were not functional even after lapse of 12 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.