

# CHAPTER-I

## AN OVERVIEW OF ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

### 1.1 Introduction

The Rajasthan Panchayat Act, 1953 was enacted keeping in view the philosophy enshrined in Article 40 of the Constitution of India, which lays down that the State shall take steps to organise Village Panchayats and endow them with such powers and authority so as to enable them to function as units of self government. Subsequently, with a view to conform to the new pattern of Panchayati Raj, the Rajasthan Panchayat Samiti and Zila Parishad Act was enacted in 1959 which provided for a three tier<sup>1</sup> structure of local self governing bodies at district, block and village levels and enhance decentralisation of powers. Consequent to 73<sup>rd</sup> Constitutional Amendment, the Rajasthan Panchayati Raj Act (RPRA), 1994 came into effect from April 1994, which delineated functions and powers of Panchayati Raj Institutions (PRIs). Later, Rajasthan Panchayati Raj Rules (RPRRs), 1996 were incorporated thereunder to ensure the smooth functioning of PRIs.

There are 33 Zila Parishads (ZPs) with two cells in each ZP viz. Rural Development Cell (RDC) and Panchayat Cell (PC), 248 Panchayat Samitis (PSs) and 9,177 Gram Panchayats (GPs) in the State as of March 2012.

### 1.2 State profile

Rajasthan is the largest State in the country in terms of size and spans an area of 3.42 lakh square kilometers (sq km). As per the census 2011 (provisional), the total population of the State was 6.86 crore, of which 5.15 crore (75.07 per cent) lived in rural areas. The comparative demographic and developmental profile of the State vis-à-vis the national profile as per census 2011 is given in **Table 1.1** below:

*Table 1.1: Important statistics*

Indicator	Unit	State as per Census		National (as per Census 2011)
		2001	2011	
Population	Crore	5.65	6.86	121.02
Population (Rural)	Crore	4.33	5.15	83.31
Population (Urban)	Crore	1.32	1.71	37.71
Population Density	Persons per sq km	165	201	382
Decadal Growth Rate	Percentage	28.33	21.44	17.64
Sex Ratio	Per 1000 males	922	926	940
Literacy Rate	Percentage	61.03	67.06	74.04

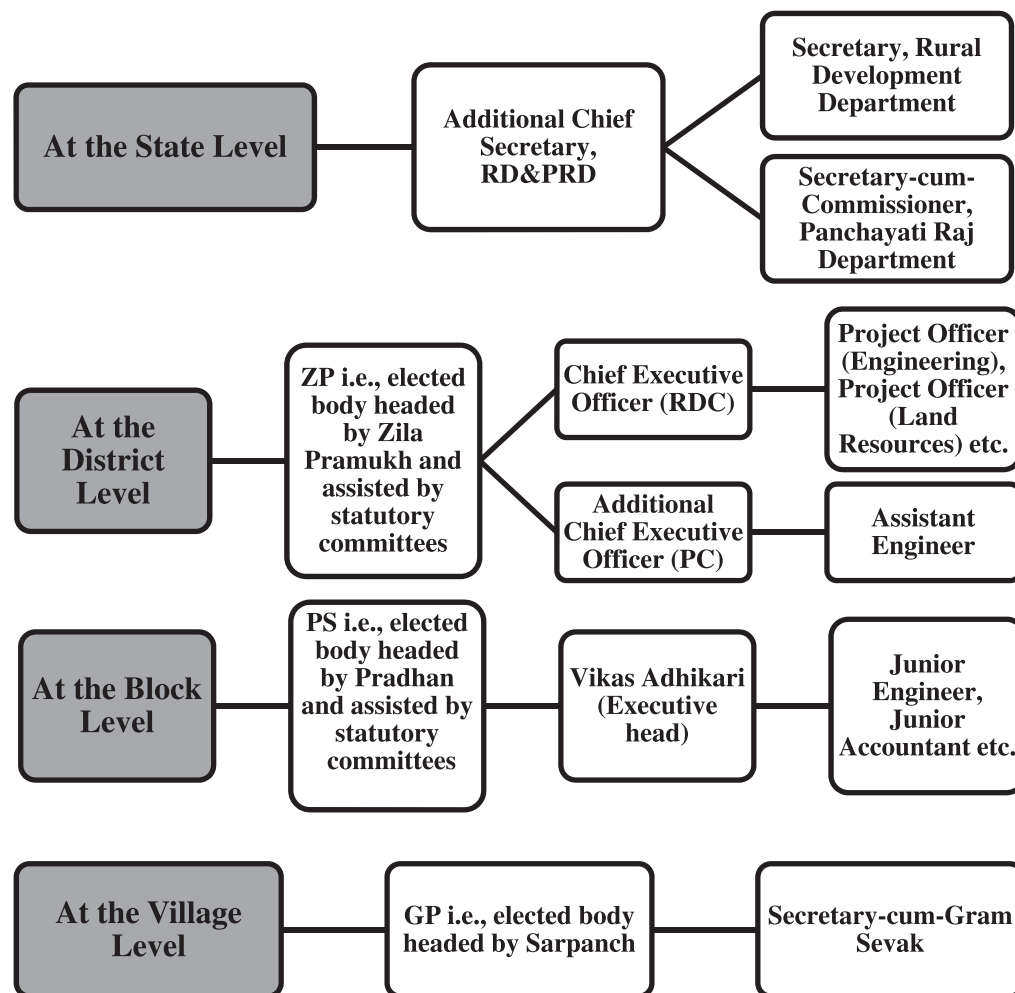
*(Source: Economic Survey 2011-12 published by Directorate, Economic and Statistics Rajasthan, Jaipur)*

1. Zila Parishad at District level, Panchayat Samiti at Block level and Gram Panchayat at Village level.

### 1.3 Organisational set up

The administrative department dealing with affairs of the PRIs is Rural Development and Panchayati Raj Department (RD&PRD). The organisational set up of the PRIs is given in **Chart 1.1** below:

*Chart 1.1 Organisational set up of PRIs*



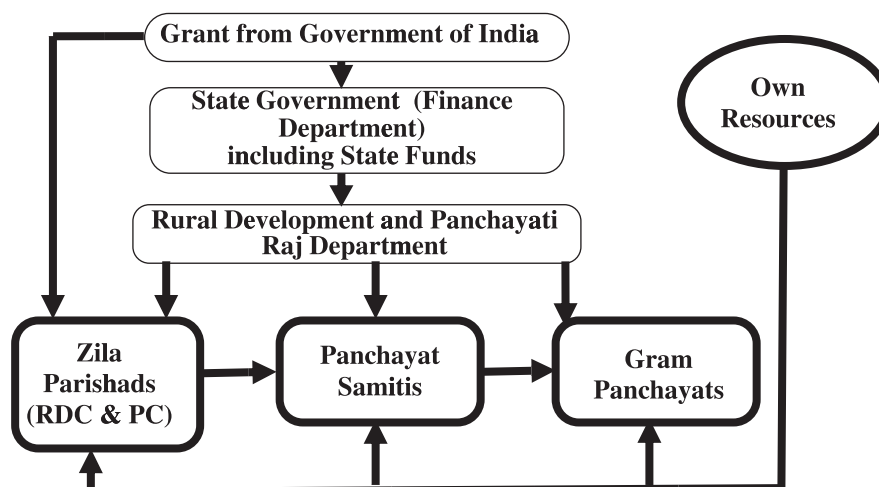
### 1.4 District Planning Committee

In pursuance of Article 243ZD of the Constitution of India and Section 121 of RPRA, 1994, the State Government constituted District Planning Committee in all the districts of the State. The main objective of District Planning Committee is to consolidate the annual plan prepared by PSs and Municipalities for integrated development of the district and forward it to the State Government in order to ensure economic and social development of the area so that local needs and priorities could be met in accordance with available resources. It was observed that the Plan for the year 2011-12 had already been prepared. However, it was noticed that the minimum of four meetings in a year as prescribed by the Panchayati Raj Department (PRD) were not held in 18 and 32 districts during 2010-11 and 2011-12 respectively.

## 1.5 Financial position of PRIs

1.5.1 The fund flow of PRIs is given in **Chart 1.2** below:

**Chart 1.2: Fund flow of PRIs**



### 1.5.2 Financial position of Panchayati Raj Department

In addition to own sources of tax and non-tax revenue i.e. fair tax, building tax, fees, rent from land and buildings, water reservoir etc. and capital receipts from sale of land, the PRIs receive funds from the State Government and Government of India (GoI) in the form of grants-in-aid/loans for general administration, implementation of developmental schemes/works, creation of infrastructure in rural areas etc. Funds are also provided under recommendations of the Central/State Finance Commissions. The position of receipts and expenditure of PRIs for the period 2007-12 based on data made available (August 2012) by the PRD is given in **Table 1.2** below:

**Table 1.2: Financial position of PRIs**

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
<b>(A) Revenue receipts</b>					
Own Tax	2.04	NA	NA	NA	NA
Own Non-Tax	12.45	NA	NA	NA	NA
<b>Total Own Revenue</b>	<b>14.49</b>	-	-	-	-
Grants-in-aid from State Government	166.27	540.40	853.21	1,051.77	2,197.21
12 <sup>th</sup> /13 <sup>th</sup> Finance Commissions grants	146.04	369.00	246.00	370.10	609.40
<b>Total Receipts</b>	<b>326.80*</b>	<b>909.40</b>	<b>1,099.21</b>	<b>1,421.87</b>	<b>2,806.61</b>
<b>(B) Expenditure</b>					
Revenue expenditure (Pay and allowances and maintenance expenditure)	297.60	881.88	1,024.09	1,416.22	2,805.64
Capital expenditure	29.20	27.52	75.12	5.65	0.97
<b>Total Expenditure</b>	<b>326.80*</b>	<b>909.40</b>	<b>1,099.21</b>	<b>1,421.87</b>	<b>2,806.61</b>

(Source: As per data provided by PRD). NA : Not available

\* In addition, grants of ₹ 180.10 crore were released during 2007-08 to the PRIs as per recommendations of Third State Finance Commission and same amount was booked as expenditure by PRD in the relevant year in their own accounts.

The above position indicates that:

- Grant-in-aid from the State Government increased by 23.27 per cent and 157.52 per cent in 2010-11 and 2011-12 respectively over ₹ 853.21 crore in 2009-10.
- Similarly, 12<sup>th</sup> and 13<sup>th</sup> Finance Commissions (FC) grants also increased by 50.45 per cent and 147.72 per cent in 2010-11 and 2011-12 respectively over ₹ 246 crore in 2009-10.
- Total receipts and expenditure increased by 29.35 per cent and 155.33 per cent in 2010-11 and 2011-12 respectively over ₹ 1,099.21 crore in 2009-10.
- There was a decreasing trend in capital expenditure (developmental works) since 2007-08.
- Data in respect of ‘Own tax’ and ‘Own non-tax’ revenue of PRIs for the years 2008-09 to 2011-12 was not made available by PRD. This indicates that adequate arrangements for consolidation of data at State level were not available. Hence, the financial position of PRD does not reflect the complete picture.

### **1.5.3 Financial position of Rural Development Department**

Rural Development Department (RDD) deals with schemes sponsored by Central/State Government. The position of receipts and expenditure of RDD for the years 2008-12 is given in **Table 1.3** below:

**Table 1.3: Financial position of RDD**

(₹ in crore)

Particulars	2008-09			2009-10			2010-11			2011-12		
	CSS	SSS	Total	CSS	SSS	Total	CSS	SSS	Total	CSS	SSS	Total
Opening balance	648.17	248.41	<b>896.58</b>	455.67	124.25	<b>579.92</b>	378.26	157.59	<b>535.85</b>	745.84	206.32	<b>952.16</b>
Receipts	7,796.57	194.15	<b>7,990.72</b>	775.29	185.25	<b>960.54</b>	977.99	248.81	<b>1,226.80</b>	1,010.65	259.01	<b>1,269.66</b>
Total available funds	8,444.74	442.56	<b>8,887.30</b>	1,230.96	309.50	<b>1,540.46</b>	1,356.25	406.40	<b>1,762.65</b>	1,756.49	465.33	<b>2,221.82</b>
Expenditure	6,972.86	275.84	<b>7,248.70</b>	811.34	154.53	<b>965.87</b>	849.14	182.09	<b>1,031.23</b>	1,070.03	216.69	<b>1,286.72</b>
Closing balance	1,471.88	166.72	<b>1,638.60</b>	419.62	154.97	<b>574.59</b>	507.11	224.31	<b>731.42</b>	686.46	248.64	<b>935.10</b>
Percentage of expenditure to total available fund	82.57	62.33	<b>81.56</b>	65.91	49.93	<b>62.70</b>	62.61	44.81	<b>58.50</b>	60.92	46.57	<b>57.91</b>

(Source: As per data provided by RDD)

(CSS: Centrally Sponsored Scheme, SSS: State Sponsored Scheme)

The above table indicates that:

- There was a difference of ₹ 220.74 crore between the closing balance of 2010-11 and the opening balance of 2011-12. RDD attributed (August 2012) the difference to non-inclusion of releases made by the Central and State Governments at the end of relevant year. Further the closing balances were based on monthly progress reports (MPRs) in which interest and other

receipts were not included. RDD also stated that in most of the schemes opening balances were taken on the basis of audited accounts that were different from the closing balances of MPRs. Thus, accounting procedure does not reflect the complete picture of receipts and expenditure of the RDD.

- Percentage of expenditure to the total available funds decreased from 81.56 per cent in 2008-09 to 57.91 per cent in 2011-12. This indicated management weakness in the organisation resulting in under-utilisation of financial resources available for providing basic facilities and improving the quality of life of rural people.

#### **1.5.4 Thirteenth Finance Commission grants**

The position of grants released by GoI and further releases by the State Government to PRIs under 13<sup>th</sup> FC is given in **Table 1.4** below:

**Table 1.4: Grants of 13<sup>th</sup> FC**

(₹ in crore)

Year	Head	Grants released by GoI to the State Government		Grants released by the State Government to PRIs	
		Amount	Date	Amount	Date
2010-11	General Basic Grant I	183.34	21.07.2010	183.34	28.07.2010
	General Basic Grant II	183.34	25.01.2011	183.34	31.01.2011
	Special Area Basic Grant I	1.69	21.07.2010	1.69	29.07.2010
	Special Area Basic Grant II	1.73	25.01.2011	1.73	31.01.2011
	<b>Total</b>	<b>370.10</b>		<b>370.10</b>	
2011-12	General Basic Grant I	225.18	29.07.2011	225.18	02.08.2011
	General Basic Grant II	234.47	01.03.2012	234.47	06.03.2012
	General Performance Grant I	78.35	30.01.2012	78.35	02.02.2012
	General Performance Grant II	79.98	28.03.2012	67.98	31.03.2012
	Extra Performance Grant	54.98	31.03.2012	-	-
	Special Area Basic Grant I	1.71	29.07.2011	1.71	02.08.2011
	Special Area Basic Grant II	1.71	01.03.2012	1.71	06.03.2012
	<b>Total</b>	<b>676.38</b>		<b>609.40</b>	

(Source: As per data provided by PRD)

There was short release of general performance grants of ₹ 12 crore and extra performance grants of ₹ 54.98 crore pertaining to 2011-12 to PRIs.

## **1.6 Devolution of funds and functions**

State Government decided (June 2003) to devolve all 29 subjects listed in the Eleventh Schedule of the Constitution to the PRIs. However, PRD informed (January 2013) that funds and functionaries of 15 subjects and functions of 23 subjects had been transformed to PRIs as per details given in **Appendix-I**. The shortcomings noticed in devolution of these subjects are given below:

### **1.6.1 Non- devolution of funds to PRIs**

The State Government issued (October 2010) orders for transfer of five Departments namely Elementary Education, Women and Child Development, Medical and Health, Social Justice and Empowerment and Agriculture to

PRIs. Finance Accounts for the year 2011-12 revealed that funds for execution of only some schemes of three Departments<sup>2</sup> were disbursed to PRIs. In case of Elementary Education, pay and allowances were paid from PRIs and the Education Department. No funds were transferred for Medical and Health Department. This indicates that administrative and financial functions of these Departments have not been fully transferred to PRIs.

### **1.6.2 Non-devolution of funds to GPs by ZPs**

While accepting (March 2007 and 2008) the recommendations of Second and Third State Finance Commissions (SFC) regarding transfer of one *per cent* of net receipts of royalties on minerals (both major and minor) to GPs, PRD, Government of Rajasthan directed (December 2007) all ZPs that one *per cent* of share of royalties so transferred to ZPs should be distributed in accordance with the formula determined by the general body of the respective ZPs, amongst the GPs for infrastructure and other rural developmental works, where mining activities were carried out and royalties recovered.

Scrutiny of records of five ZPs (PC) revealed that during March 2007 to March 2011 the State Government transferred ₹ 20.58 crore<sup>3</sup> in Personal Deposit (PD) accounts of these ZPs (PC) on account of GPs share in royalties on minerals pertaining to years 2001-02 to 2010-11. Out of ₹ 20.58 crore, these ZPs (PC) distributed only ₹ 15.73 crore<sup>4</sup> amongst GPs as of June to August 2012 and balance ₹ 4.85 crore remained lying in their PD accounts for a period more than one to five years.

## **1.7 Outstanding utilisation certificates**

As of March 2012, against the amount of ₹ 1,934.33 crore released (up to March 2012) by RDD to ZPs (RDC), utilisation certificates (UCs) of ₹ 1,415.11 crore were yet to be received from the executing agencies by RDD. Similarly, against funds of ₹ 2,895.95 crore given by PRD to ZPs (PC) under grants of Third SFC, Fourth SFC and 13<sup>th</sup> FC, UCs of ₹ 1,669.01 crore were to be received by PRD as per details given in *Appendix-II*. Secretary-cum-Commissioner, PRD stated (February 2013) that all the Chief Executive Officers and Additional Chief Executive Officers of ZPs had been directed to furnish UCs to PRD without any delay.

## **1.8 Accounting arrangements and maintenance of accounts**

### **1.8.1 Accounting arrangements**

As per 13<sup>th</sup> FC's recommendations an accounting framework and codification pattern consistent with the Model Panchayat Accounting System should be

- 
2. Social Justice and Empowerment Department: 11 schemes, Agriculture Department: three schemes and Women and Child Development Department: one scheme.
  3. ZPs (PC): Bharatpur - ₹ 0.70 crore, Nagaur - ₹ 2.92 crore, Pali - ₹ 2.87 crore, Rajsamand - ₹ 7.15 crore and Udaipur - ₹ 6.94 crore.
  4. ZPs (PC): Bharatpur - ₹ 0.47 crore, Nagaur - ₹ 2.41 crore, Pali - ₹ 0.72 crore, Rajsamand - ₹ 6.81 crore and Udaipur - ₹ 5.32 crore.

adopted. In addition, for proper monitoring of the budget allocation and consolidation of accounts of PRIs at State level, the States are required to allot specific codes to each ZPs, PSs and GPs.

It was observed that annual accounts for the years 2010-11 and 2011-12 were maintained by the PRIs in conventional formats prescribed under Chapter 11 of RPRRs, 1996. Meanwhile, Simplified Accounting Formats 2009 issued by Ministry of Panchayati Raj, Government of India in consultation with Comptroller & Auditor General of India (CAG) have been adopted for mandatory implementation with effect from 1 April 2011. PRD intimated (January 2013) that out of 9,458 PRIs only 175 PRIs closed their yearbooks for the period 2011-12 on Panchayati Raj Institution Accounting Software (PRIASoft) which is a centralised accounting package that facilitates maintenance of accounts under Model Accounting System. This indicates that in absence of closure of books of accounts by all the PRIs, consolidation of annual accounts was not made at the State level, as recommended by 13<sup>th</sup> FC.

Besides, database formats for district and State level as recommended by CAG was also not being maintained by the PRD. For implementation of aforesaid database formats necessary amendment in the Rule 245 of RPRRs, 1996 was under consideration with Law Department (January 2013).

### ***1.8.2 Delayed submission of annual accounts***

***1.8.2.1*** Annual accounts of ZPs (RDC) for the years 2009-10 and 2010-11 were required to be sent to RDD by 30 September of 2010 and 2011 respectively.

It was observed that 29 ZPs (RDC) sent their annual accounts for the year 2009-10 with delays ranging from 92 days to 644 days while ZPs (RDC), Jalore, Jodhpur, Pali and Pratapgarh did not send their annual accounts to RDD. Similarly, 23 ZPs (RDC) sent their annual accounts for the year 2010-11 with delays ranging from 59 days to 279 days and ZPs (RDC), Alwar, Barmer, Churu, Jaipur, Jalore, Jodhpur, Nagaur, Pali, Pratapgarh and Sriganganagar did not send their annual accounts to RDD as of August 2012.

***1.8.2.2*** Annual Accounts of ZPs (PC) for the years 2009-10 and 2010-11 were required to be sent to PRD by 15 May of 2010 and 2011 respectively.

It was observed that 32 ZPs (PC) sent their annual accounts for the year 2009-10 with delay ranging from three days to 233 days while ZP (PC), Pratapgarh did not send annual accounts to PRD. Similarly, 28 ZPs (PC) sent their annual accounts for the year 2010-11 with delays ranging from three days to 180 and ZPs (PC), Baran, Bharatpur, Hanumangarh, Tonk and Pratapgarh did not send their annual accounts to PRD as of July 2012. Although irregularities regarding delayed submission of annual accounts were also pointed out in all the previous five Audit Reports, no remedial action was taken by the State Government.

## 1.9 Audit arrangement

The Director, Local Fund Audit Department (LFAD) is the primary Auditor of the accounts of the PRIs under the RPR, 1994. Section 18 of the Rajasthan Local Fund Audit Act, 1954 empowers Director, LFAD to lay its Annual Audit Report on PRIs before the State Legislature. No Annual Audit Report of Director, LFAD has been laid before the State Legislature as of January 2013.

CAG conducts audit of PRIs under Section 14 of CAG's (Duties, Powers and Conditions of Service) Act, 1971. The State Government had entrusted (February 2011) audit of PRIs under Technical Guidance and Supervision module to the CAG. Section 75(4) of the RPR, 1994 as amended (March 2011) also empowers the CAG to conduct audit of the accounts of PRIs and to place the Audit Report before the State Legislature.

### 1.9.1 Certification of accounts

As per Rajasthan Local Fund Audit Rules, 1955, LFAD is to certify the accounts of PRIs. Director, LFAD intimated (April 2011) that they conduct only transaction audit of accounts and do not certify the accounts of PRIs. Hence, correctness of the accounts of PRIs cannot be verified in audit.

## 1.10 Audit coverage

The position of audit coverage is indicated in **Table 1.5** below:

*Table 1.5: Audit coverage of PRIs*

Name of PRI	Audit coverage in numbers				Audit coverage in expenditure (Average basis)			
	2010-11		2011-12		2010-11		2011-12	
	Total	Audit coverage	Total	Audit coverage	Total expenditure	Audit coverage	Total expenditure	Audit coverage
	(₹ in crore)							
GPs	9,177	1,286	9,177	776	937.74	131.41	2,073.00	175.29
PSs	248	188	248	109	421.91	319.84	573.35	252.00
ZPs (PC)	33	22	33	33	62.22	41.88	160.26	160.26
ZPs (RDC)	33	22	33	33	1,031.23	687.49	1,286.72	1,286.72

(Source: As per information supplied by PRD and RDD)

## 1.11 Arrears of Audit

The Director, LFAD is the Statutory Auditor for the accounts of PRIs. There were arrears of audit of 6,368 units of PRIs (ZPs: 15, PSs: 168 and GPs: 6,185) as of May 2012 due to vacant posts and election duties of staff as intimated by Director, LFAD (August 2012).

## 1.12 Lack of response to Audit observations

**1.12.1** Up to May 2012, 51,040 paragraphs of 6,259 inspection reports (IRs) of PRIs issued by Director, LFAD were pending settlement. Audit observations include 7,440 paragraphs of embezzlement involving ₹ 19.19 crore, were also pending action as of August 2012.



**1.12.2** As of September 2012, 2,063 IRs of ZPs and PSs (including GPs) comprising 23,820 paragraphs issued by Office of the Principal Accountant General were pending for settlement as detailed in **Table 1.6** below:

**Table 1.6: Outstanding IRs and paragraphs**

Year	IRs	Paragraphs
Up to 2003-04	435	1,740
2004-05	302	2,872
2005-06	237	2,462
2006-07	182	2,037
2007-08	195	2,610
2008-09	206	3,579
2009-10	165	2,801
2010-11	123	2,015
2011-12	218	3,704
<b>Total</b>	<b>2,063</b>	<b>23,820</b>

This indicated lack of prompt response on the part of officials of PRIs which had not only resulted in recurrence of the deficiencies and lapses pointed out earlier but also eroded the accountability of PRIs.

### **1.13 Conclusion**

- Annual accounts were neither maintained in the prescribed format nor submitted to RDD/PRD within stipulated time.
- Certification of accounts of PRIs was not being done by Director, LFAD.
- There was no system of consolidation and compilation of accounts at the State level in respect of receipts and expenditure of the various tiers of PRIs.
- Substantial portion of Centrally/State sponsored scheme grants was not utilised.
- There was huge pendency of audit and audit observations for settlement.