
CHAPTER-I

A. AN OVERVIEW OF PANCHAYATI RAJ INSTITUTIONS

B. FINANCIAL REPORTING

CHAPTER-I

Section 'A' An Overview of the Panchayati Raj Institutions

1.1 Background

The 73rd Constitutional Amendment Act marked a new era in the federal democratic set up of the country so far as it conferred constitutional status to the panchayats and recognized them as the Third Tier of Government. The Constitutional amendment provides for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice and implementation of 29 subjects listed in XI Schedule of the Constitution of India. The constitutional amendment established a system of uniform structure, holding of regular election, regular flow of funds through Finance Commissions *etc.* As a follow up, the States were required to entrust these bodies with such powers, and responsibilities so as to enable them to function as institutions of self-government. In particular, the Panchayati Raj Institutions (PRIs) were required to prepare plans and implement schemes for economic development and social justice, and perform functions including those enumerated in the Eleventh Schedule of the Constitution.

Post the 73rd Constitutional Amendment Act, 1992, the State enacted the Manipur Panchayati Raj (MPR) Act, 1994. A system of two-tier PRI system at the village and district levels was established in the State, and rules were framed to enable the PRIs to function as per the Constitutional mandate.

The two tier Panchayati Raj system envisaged in the Manipur Panchayati Raj Act, 1994 came into force with effect from 24 June 1994. The first general election to the Zilla Parishads and Gram Panchayats was held in 1997. Since then, general elections for the Panchayats have been held every five years, the latest one being in September 2012.

1.2 State Profile

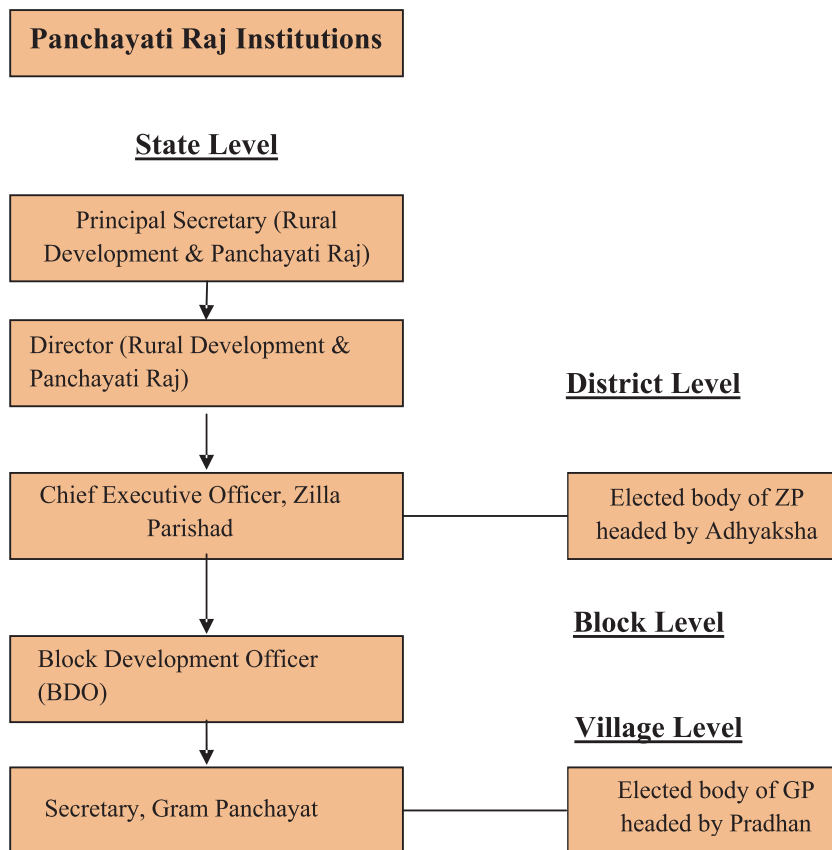
Manipur is situated in the North East part of India. The State covers an area of 22,327 sq. km. with a population of 27.21 lakh (2011 census). The State has 9 districts, of which 5 districts are located in the hill areas and 4 districts are spread out in the valley. As against decadal growth of 17.6 *per cent* at national level, the population of the State has grown by 18.65 *per cent* in the decade of 2001-2011. In the previous decade population growth was 24.86 *per cent*. The total population of 27.22 lakh constitutes 0.22 *per cent* of the Indian population. The rural population of the State is 19.00 lakh which is 70 *per cent* of the total population. The service sectors along with the agricultural sector dominate the State's economy. The demography of the State as per 2011 census is given in Table below:

Table 1.1: Statistics of the State

Sl. No.	Indicator	Unit	Value
1	Population	1,000s	2722
2	Density of population	Persons per sq. Km.	122
3	Gender Ratio	Female per 1000 males	987
4	Gender Ratio (Rural)	-do-	966
5	Gender Ratio (Urban)	-do-	1038
6	Literacy	Percentage	79.85
7	Number of PRIs	Numbers	169
8	Number of Zilla Parishads	Numbers	4
9	Number of Gram Panchayats	Numbers	165

1.3 Organisational set-up of PRIs

The organizational set-up of PRIs in the State is as under:



1.3.1 The broad details of responsibility of PRIs authorities are given below:

Table 1.2: Details of responsibility of PRIs functionaries

Authority	Functions
Principal Secretaries (RD&PR)	Administers the overall monitoring and implementation of schemes relating to PRIs
Zilla Parishad (elected body)	Preparation of Plan for economic development and social justice of the District
Chief Executive Officer	Carries out the policies and directives of the ZP
Gram Panchayat (elected body)	Preparation of Annual Plan and Annual Budget
Panchayat Secretary	Keeping of records and maintenance of Accounts

1.3.2 Composition of PRIs

Zilla Parishad: Every ZP is a corporate body by the name of its district. Each ZP consists of the members directly elected from the territorial constituencies in the district. The Adhyaksha elected by the majority of the elected members presides over and conducts meeting of the ZP. The Adhyaksha is to exercise such other powers, perform such other functions and discharge such other duties as notified by the State Government from time to time.

Gram Panchayat: Each GP has a body comprising of Pradhan and its members. The Pradhan and its members are elected by direct election by the members of the Gram Sabha from amongst themselves. The Pradhan shall preside over the meeting of the Gram Sabha and Gram Panchayat as well, and is responsible for the governance of the body.

1.4 Staffing Pattern of PRIs

The Government may, by order specify the staffing pattern, the scales of pay and mode of recruitment of the staff of GPs and ZPs. As per provision under Section 75 of Manipur Panchayati Raj Act, 1994, the State Government shall appoint Chief Accounts Officers (CAO), Chief Planning Officer (CPO) and such number of officers of Group A, B and C Staffs for each ZP on such terms and conditions as may be prescribed. However, no appointment against the stated posts was made as of March 2012.

As per existing staffing status, each ZP is manned with staffs deputed from different departments as a part of devolution of functionaries. However, there was no uniformity in the staffing pattern for ZPs. While in Imphal East ZP, the number of employee was 20 (twenty), in Bishnupur ZP the number of employees was 12 (twelve). There was no criteria according to which the number of employees had been arrived at. Remedial steps need to be taken by the concerned department to make an assessment of the number of officers and staff of different categories required for proper functioning of each ZP.

As per Section 45 of the Manipur Panchayati Raj Act, 1994, there shall be a Secretary for every Gram Panchayat who shall be appointed in such manner as may be prescribed. However, as of March 2012, there were only 114

Secretaries against the existing 165 GPs in the State. Taking into account the various functions that have been delegated to the GPs, functionaries commensurate to the functions given are required for the smooth and effective functioning of the local bodies. However, it is evident from the findings contained in Section 'B' of Chapter I and Chapter II of this report that the provision of staff is insufficient for GPs to meet the demand of maintenance of accounts and carrying out of their functions in the midst of increasing financial and developmental activities.

1.5 Standing Committee

Under Sections 38 and 65 of the Manipur Panchayati Raj Act, 1994, the GPs and the ZPs are required to constitute the following Standing Committees to perform the functions assigned to them:

Table 1.3 Details of Standing Committees

Level of PRIs	Chief Political Executive	Standing Committees	Political Executives
GP	Pradhan	(a) Production Committee (b) Social Justice Committee (c) Amenities Committees	Pradhan is the Chairman of the three committees
ZP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee	Adhyaksha is the Chairman of each committee
		(c) Social Justice Committee	Up-Adhyaksha is the Chairman
		(d) Education & Health Committee (e) Agriculture & Industries Committee (f) Works Committee	Chairman is elected from the members of these committees

Source: The Manipur Panchayati Raj Act, 1994

In case of GP, each committee shall consist of not less than three and not more than five members including the Pradhan and Up-Pradhan as the case may be. In ZP each Standing Committee shall consist of such number of members not exceeding five including the Chairman elected by the members of ZP from amongst the Standing Committees. However, none of the PRIs have constituted the above stated Committees. In the absence of such Committees, activities/functions like Education, Agriculture, Amenities *etc.* cannot be initiated and followed up in a systematic way, and consequently these activities are not getting the focused attention.

The PRIs-wise roles and responsibilities of the Standing Committees are given in **Appendix-I**.

1.6 District Planning Committee

In term of Article 243 ZD of the Constitution of India and Section 96 of the Manipur Panchayati Raj Act, 1994, the State Government is required to constitute a District Planning Committee (DPC) in each district to consolidate the plans prepared by the GPs and ZP in the district and to prepare a draft

development plan for the district as a whole. The DPC was constituted in Thoubal and Bishnupur Districts in August 1997, while in Imphal East and Imphal West District, it was constituted in May 2003. As per the Manipur Panchayati Raj Act, 1994, the DPC shall consist of the following members:-

- a. Adhyaksha of the Zilla Parishad (Chairperson);
- b. Members of the House of the People representing the district;
- c. Members of Legislative Assembly who are elected in the district;
- d. Such number of Councillors as may be specified by the government from the member of Councillors of Nagar Panchayats and Municipal Councils in the district; and
- e. Chief Executive Officer.

Though DPCs were constituted in four valley districts they were not made functional as of March 2012. None of the DPCs had engaged technical experts and secretarial support staff in different fields for preparation of draft district development plan, defeating the key purpose of constitution of the DPCs. Neither the GPs nor the ZPs prepared perspective plans to be submitted to DPC. Thus, in the absence of perspective plan of districts as a whole, funds were allocated by the Government to Local Bodies in routine manners.

1.7 Financial Profile

1.7.1 Fund flow to PRIs

The resource base of PRIs consists of Central Finance Commission (CFC) grants, State Finance Commission (SFC) grants, Central Government grants and State Government grants for maintenance and development purposes. Funding by the State Government was on the lines of accepted recommendations of the Second State Finance Commission (SSFC) that took into account factors like population, literacy, health, irrigation, medical facilities *etc.* The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in tables 1.4 and 1.5 below respectively. The authorities for reporting use of funds in respect of ZPs and GPs are Chief Executive Officer (CEO) and Panchayat Secretary respectively.

Table 1.4: Fund flow mechanism in PRIs

Nature of Fund	ZPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Assessees and users	Bank	Assessees and users	Bank
Revenue grants	State Government	Bank	State Government	Bank
SFC				
State Plan Scheme	GoI	Bank	GoI	Bank
CFC/CSS				

CSS-Centrally Sponsored Scheme, GoI-Government of India, CFC-Central Finance Commission, SFC- State Finance Commission

1.7.2 Resources: Trends and Composition

The fund flow arrangements and trends of resources of PRIs for the period 2007-08 to 2010-12 are shown in the following table:

Table 1.5: Fund flow arrangements in flagship schemes

Sl. No.	Scheme	Fund flow
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	Central share is released direct to the DRDAs. State share provided in the Budget is released to DRDA. DRDAs disburse the fund (Central and State share together) to ZP and GPs under their jurisdiction.
2	Indira Awas Yojana (IAY)	Both Central share and State share is released to DRDAs. DRDAs disburse the fund (Central and State share together) to ZP and GPs under their jurisdiction.
3	Central Finance Commission (CFC) Grant	Government of India transfers the fund to the State. The State Government releases the fund through Rural Development and Panchayati Raj Department.
4	SGSY-Sampoorna Gramin Swarojgar Yojana	Government of India transfers the fund to the State. The State Government releases the fund through Rural Development and Panchayati Raj Department.

Source: Schemes guidelines

Table 1.6: Time series data on resources of PRIs (₹ in crore)

Source of Revenue	2007-08	2008-09	2009-10	2010-11	2011-12
GoI	12.38	68.48	108.59	129.38	241.39
State grants for Centrally sponsored Schemes	4.65	0.44	5.46	7.58	12.50
CFC grant	6.35	4.26	8.51	5.60	5.47
SFC grant	Nil	20.10	25.91	18.74	18.74
Salaries/Honorarium	0.91	0.86	0.72	0.72	3.42
Own Revenue	Nil	Nil	Nil	Nil	Nil
Total	24.29	94.14	149.19	162.03	281.52

Source: Data consolidated from the data received from DRDAs, RD & PR Department

As compared to 2008-09 the grants from Central Government substantially increased during 2009-10, 2010-11 and 2011-12 due to release of more funds under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

1.7.3 State Finance Commission Grants

After the enactment of the 73rd Amendment Act to the Constitution of India, the State Government constituted two SFCs to determine the principles on the basis of which adequate financial resources would be ensured for PRIs. The recommendations of the Second State Finance Commission (SSFC) effective from 01.04.2001 were passed in the State Legislative Assembly during December 2005. As per the accepted recommendation of SSFC the State Government is required to transfer 10 *per cent* of the State's own revenue including the State's share of Central taxes to the local bodies including District Councils. Out of this 10 *per cent*, 34.38 *per cent* is to be transferred to

PRIs. The release of SSFC grants by the State Government during the last four years from 2008-09 to 2011-12 to PRIs is shown in the table below:

Table 1.7: Release of Funds to PRIs under SFC grant

(₹ in crore)

Sl. No.	Name of PRIs	Amount			
		Released during 2008-09	Released during 2009-10	Released during 2010-11	Released during 2011-12
A	Zilla Parishad				
(i)	Imphal East	0.87	1.12	0.81	0.81
(ii)	Imphal West	0.59	0.76	0.55	0.55
(iii)	Thoubal	0.94	1.21	0.87	0.87
(iv)	Bishnupur Zilla Parishad	0.62	0.79	0.57	0.57
Total		3.02	3.88	2.80	2.80
B	Community Development Block				
(i)	Imphal East-I	2.19	2.82	2.04	2.04
(ii)	Imphal East-II	2.23	2.87	2.08	2.08
(iii)	Jiribam	0.52	0.67	0.49	0.49
(iv)	Imphal West-I	2.32	3.00	2.17	2.17
(v)	Imphal West –II	1.02	1.32	0.96	0.96
(vi)	Thoubal	3.55	4.58	3.31	3.31
(vii)	Kakching	1.76	2.27	1.64	1.64
(viii)	Bishnupur	1.78	2.30	1.66	1.66
(ix)	Moirang	1.71	2.20	1.59	1.59
Total		17.08	22.03	15.94	15.94
Grand Total		20.10	25.91	18.74	18.74

Source: Data consolidated from the data received from DRDAs, RD & PR Department

In the above table the amounts pertaining to 2011-12 were released on the basis of the recommendations of the SSFC under the head ‘Compensation & Assignment’ during 2011-12 since the period is beyond the Second State Finance Commission implementation period (2003-10). The State Government had decided to extend the recommendation of the SSFC up to 2010 even though it was initially meant for 2000-2005 period. The position of funds released and shortfall in release of funds during 2008-12 are as shown in the table below:

Table 1.8: Funds to be transferred vis-à-vis actual funds transferred
(₹ in crore)

Year	State's revenue including State's share of net proceeds of Union taxes	Amount to be transferred to Local bodies including ADCs (10%)	Amount to be transferred to PRIs (34.38%)	Amount released	Short release with regard to SSFC recommendation (%)
2008-09	1004	100	34	20	14 (41)
2009-10	1033	103	35	26	9 (25)
2010-11	1517	152	52	19	33 (63)
2011-12	1834	183	63	19	44 (70)

Source: Departmental records and Finance Accounts

As it is evident from the table above the transfer of funds to the PRIs during 2009-12 was lower than that of the recommendation of the SSFC. The percentage of shortfall ranged from 25 to 70 per cent. The short release of funds to PRIs against the SSFC recommendation was increasing year after year during the period 2008-12 without any recorded reason.

1.8 Status of transfer of Funds, Functions and Functionaries

The 73rd Amendment to the Constitution and the Manipur Panchayati Raj Act, 1994 envisaged transfer of the functions to PRIs listed in the Eleventh Schedule. Accordingly, the State Government through executive orders had to transfer all the 29 functions to the PRIs. For effective functioning of both the State Government and PRIs, Activity Mapping delineated the role and responsibility of PRIs. Out of 29 functions the State Government devolved functions of 16 departments to PRIs as of March 2012. The details of activities of 16 departments to be transferred to ZPs and GPs are shown in **Appendix-II**. There has been no change in the 3Fs transferred since the first time the order was issued in 2005. The status on the transfer of functions, functionaries and funds in respect of 16 Departments to ZPs and GPs as on 31.03.2012 is shown in **Table 1.9 & 1.10**.

Table 1.9: Transfer of Functions, Functionaries & Funds to ZPs

Sl. No.	Department	Latest Status on functionaries transferred	Latest Status on fund transferred
1	Fisheries	1-Inspector (Fisheries), 2 - FFA to each ZP (except Thoubal)	₹ 7 lakh for 2005-06 ₹ 6 lakh for 2006-07 ₹ 3 lakh for 2007-08 ₹ 4 lakh for 2008-09
2	Horticulture	4-AAOs 8 - FAs to each ZP	₹ 8 lakh for 2006-07
3	Tribal Development	1 - FA & 1 RM to each ZP and 1-EO each to 2 ZPs	₹ 15.30 lakh for 2006-07 ₹ 29.70 lakh for 2007-08 ₹ 38.60 lakh for 2008-09
4	Rural Development	1 - EO, 1-UDC/Accountant, 1-LDC to each ZP	₹ 2008.40 lakh for 2007-08 ₹ 2591.68 lakh for 2008-09 ₹ 3113.66 lakh for 2009-10
5	Science & Technology	Not transferred	₹ 40 lakh for 2006-07 ₹ 40 lakh for 2007-08 ₹ 50 lakh for 2008-09
6	Veterinary & Animal Husbandry	1 - FA/Computer Assistant to each ZP	Not transferred
7	Social Welfare	2 - Gram Sevikas to each ZP	Not transferred
8	Minor Irrigation	1 - RM/1- Pump Operator to each ZP	Not transferred
9	Agriculture	1 - AEO(Agri) & 1 - VEO to each ZP	Not transferred
10	Industries	1 - EO(Ind) to each ZP	Not transferred
11	Co-operation	1 - Sub Registrar to each ZP	Not transferred
12	Transport	Not transferred	Not transferred
13	Health	Not transferred	Not transferred
14	Arts & Culture	Not transferred	Not transferred
15	Family Welfare	Not transferred	Not transferred
16	Education (schools)	Not transferred	Not transferred

FFA-Fishery Field Assistant, AAO-Assistant Agricultural Officer, EO-Extension Officer, UDC-Upper Division Clerk, FA-Field Assistant, LDC-Lower Division Clerk, RM-Road Mohorir, AEO-Assistant Extension Officer, VEO-Village Extension Officer

Table 1.10: Transfer of Functions, Functionaries & Funds to GPs

Sl. No.	Department	Latest Status on functionaries transferred	Latest Status on fund transferred
1	Fisheries	Not transferred	Not transferred
2	Horticulture	Not transferred	Not transferred
3	Tribal Development	Not transferred	Not transferred
4	Rural Development	1-Panchayat Secretary each to 165 GPs	Not transferred
5	Science & Technology	Not transferred	Not transferred
6	Veterinary & Animal Husbandry	Not transferred	Not transferred
7	Social welfare	Not transferred	Not transferred
8	Minor irrigation	Not transferred	Not transferred
9	Agriculture	Not transferred	Not transferred
10	Industries	Not transferred	Not transferred
11	Co-operation	Not transferred	Not transferred
12	Transport	Not transferred	Not transferred
13	Health	Not transferred	Not transferred
14	Arts & culture	Not transferred	Not transferred
15	Family welfare	Not transferred	Not transferred
16	Education(schools)	Not transferred	Not transferred

The Amendment Act envisioned that the PRIs shall have necessary powers to carry out of all the functions entrusted, assigned or delegated to them and, in particular, to exercise all powers specified under the Manipur Panchayati Raj Act, 1994. However, due to non-transfer/partial transfer of funds and functionaries the PRIs were not able to perform the functions assigned to them.

Thus, transfer of funds, functions and functionaries to PRIs was not adequate and effective to enable them to function as institutions of local self-government.

1.9 Audit Mandate

1.9.1 Primary Auditor

The Director, Local Fund Audit (DLFA), Government of Manipur conducts audit of accounts of GPs and ZPs under Sections 44(1) and 74(1) of the Manipur Panchayati Raj Act, 1994. The duty of the DLFA is to conduct audit on the PRIs' accounts and audit reports are to be forwarded to the audited entities and the State Government.

The DLFA intimated (August 2012) that the audit of accounts upto March 2012 of 4 ZPs and 95 GPs under the four Block Development Offices (BDOs) were conducted. Inspection Reports were forwarded to the concerned units and the State Government as soon as audit was over.

The Director further stated that no Annual Audit Report for any of the year was compiled. Also, there was no case of follow-up action on the Inspection Reports. In this state of position, Inspection Reports could not serve the purpose of audit.

1.9.2 Organizational Set up of DLFA

Director, Local fund Audit of Manipur is a department headed by a Director assisted by Joint Director, Assistant Directors, Audit Officers and other ancillary staff. The DLFA conducts audit of account of Local Bodies and accounts of Government offices/departments as internal audit cell of Finance Department. During 2011-12, 8 audit parties were formed. An audit party comprised of one Audit Officer and two Auditors and they work under the direct supervision of the Assistant Director and Joint Director.

1.9.3 Audit by C&AG of India

The Accountant General (Audit), Manipur conducts the audit of the accounts of PRIs under Sections 14(1) and 20(1) of C&AG's Duties, Power and Conditions of Service (DPC) Act, 1971. The State Government had entrusted audit of PRIs to the C&AG under Technical Guidance and Support (TGS) arrangement in February 2012 by way of Gazette notification in pursuance of the 13th Finance Commission recommendations.

1.10 Audit Coverage

Test audit of the accounts of 8 PRIs (2 ZPs for the year 2011-12 and 6 GPs for the years 2006-11) was conducted during 2011-12 (**Appendix-III ‘A’**). Results of the audit are given in the succeeding chapter.

1.10.1 Response to Audit Observations

Results of audit of the accounts of PRIs, conducted by the office of the Accountant General (Audit), Manipur, were forwarded to the respective units in the form of Inspection Reports along with copies to the State Government. The authorities of PRIs were required to comply with the observations contained in the IRs and rectify the defects and report their compliance to audit.

The details of outstanding paras as of March 2012 are shown in table below:

Table 1.11: Details of outstanding paras

Year	No. of IRs issued	No. of paras issued under Pt II-A	No. of paras issued under Pt II-B	Total	Clearance	Outstanding
2006-07	2	Nil	8	8	Nil	8
2007-08	1	Nil	5	5	Nil	5
2008-09	2	Nil	8	8	Nil	8
2009-10	4	1	37	38	Nil	38
2010-11	6	Nil	35	35	Nil	35
2011-12	3	Nil	18	18	Nil	18
Total	18	1	111	112	Nil	112

As it is evident from the table above 112 paras were pending for settlement for want of replies from PRIs. As such, the concerned authorities failed to ensure prompt and timely action in furnishing replies to audit observation.

1.11 Conclusion

The State Government has not formulated clear policy regarding the staffing pattern of ZPs in the State. The periodicity for constitution of SFCs, as per Constitutional provisions, was not maintained by the State Government. The State Government has not devolved all the functions to the PRIs as envisaged in the Eleventh Schedule of the Constitution. Functionaries and funds were not adequately transferred for effective functioning of PRIs. Non-functioning of District Planning Committees indicated lack of seriousness of concerned authorities in consolidation and integration of plans of the district for social justice and economic development in the grass root level.

Section 'B' **Financial Reporting**

1.12 Framework

1.12.1 Financial reporting in PRIs is an important element for ensuring accountability. The matters relating to drawal of funds, incurring of expenditure, maintenance of accounts and rendering of accounts by GPs and ZPs are governed by the provisions of Manipur Panchayati Raj Act, 1994, other Departmental Manuals, standing orders and instructions.

The PRIs maintain accounts on cash basis. All receipts and payments are required to be incorporated in the accounts as and when they occur so as to make the accounts complete and accurate. However, the Manipur Panchayati Raj Act, 1994 and Rules made thereunder do not lay any provision for preparation of Annual Accounts.

1.13 Financial Reporting Issues

1.13.1 Non-Maintenance of Basic Records

The PRIs are required to maintain the following records.

- Advance Register;
- Cheque Issue Register;
- Asset Register;
- Stock and Issue Register;
- Bill Register;
- Grants-in-Aid Register; and
- Work Register.

Test-check of 2 ZPs and 6 GPs however, revealed non-maintenance of the records/books of accounts as mentioned above. The position of outstanding advances and adjustments thereof could not be ascertained due to non-maintenance of advance register. Also, in the absence of vital accounting records, actual position of utilization of funds, execution of various schemes, stock and stores and assets created by execution of development schemes could not be ascertained. The accountability of the PRIs' authorities could not also be ensured.

1.13.2 Deficiencies in maintenance of Cash Book

Test-checked of Cash Books of 8 PRIs revealed the following:

- i. Most of the monetary transactions were not entered in the Cash Book on the date of their occurrence.

- ii. Cash Books were not closed regularly and analysis of closing balance and physical verification of cash were not done.
- iii. There was no practice of consolidation of daily/monthly total of each Subsidiary Cash Books in the Main Cash Book.
- iv. Certification of number of pages of Cash Book was not made.
- v. Correction and alteration were made without initial of the competent authority.

This indicated non-adherence of the DDO of PRIs to the provisions of financial rules and resulted in improper maintenance of Cash Book. Possibilities of loss, theft, defalcation, embezzlement *etc.*, could not, therefore, be ruled out.

1.13.3 Bank Reconciliation Statement

Bank Reconciliation is a procedure which aims to reconcile the bank balance as shown in the Cash Book of the local body with that of the bank balance as per the Bank Pass Book/Statement received from the bank. However, none of the test-audited GPs and ZPs prepared Bank Reconciliation Statement. Thus, the authenticity of cash balances as per Cash Books of all the test-checked PRIs could not be ascertained in the absence of reconciliation of balances with Bank Pass Book.

1.13.4 Budget Estimates

Budget is the most important tool for financial planning, accountability and control. Under Sections 42 and 72 of the MPR Act, 1994, Budget proposal containing detailed estimates of receipts and disbursement for the ensuing year is required to be prepared by GPs and ZPs. Such Budget proposal is to be submitted to the next higher authority for approval. If the approval of the higher authority is not received within such time as may be prescribed, or by the last day of the year, whichever is earlier, the budget shall be deemed to have been approved by the prescribed authority. However, test-check of 2 ZPs and 6 GPs revealed that neither ZPs nor GPs prepared Budget up to 2011-12. As such, the expenditure incurred by the PRIs was irregular. Besides, no financial control could be exercised in the GPs and ZPs by the State Government in such a situation.

1.13.5 Maintenance of Accounts

Sections 43 and 73 of MPR Act stipulated that the accounts of GPs and ZPs shall be kept in such form and manner as may be prescribed. Test-check of records of two ZPs and six GPs revealed that accounts were maintained on cash basis. However, the basic records as mentioned in para 1.13.1 and Receipt and Payment Accounts were not maintained in all the test-audited PRIs. Audit also noticed that Model Accounting Structure for PRI prescribed by the Ministry of Panchayati Raj (MoPR), Government of India in consultation with the C&AG of India was also not adopted in any of the GPs and ZPs.

1.13.6 Conclusion

Financial reporting in PRIs is inadequate as Receipts and Payments are not incorporated in the accounts. There is no provision in PRIs' Acts and Rules for preparation and rendering of annual accounts by GPs and ZPs. Budgets were not prepared by all the test-audited PRIs. In absence of budget allocation, it was not possible to ascertain whether the expenditure incurred by GPs and ZPs were justified. Non-maintenance of basic records/registers in PRIs was noticed resulting in absence of credible financial reporting. The authenticity of cash balances as per Cash Books of all the test-checked PRIs could not be ascertained in the absence of Bank Reconciliation Statements.