

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 provisions 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 tier¹ structure of local self governing bodies at district, block and village levels and enhance decentralisation of powers. Consequent to 73rd Constitutional Amendment, giving Constitutional status to Panchayati Raj Institutions (PRIs), the Rajasthan Panchayati Raj Act (RPRA), 1994 came into effect from April 1994, which delineated functions and powers of PRIs enabling them to function as third tier of government. Later, Rajasthan Panchayati Raj Rules (RPRRs), 1996 were incorporated thereunder to ensure the smooth functioning of PRIs.

There were 33 Zila Parishads (ZPs) with two cells in each ZP viz. Rural Development Cell (RDC) and Panchayat Cell (PC), 248 Panchayat Samitis² (PSs) and 9,177 Gram Panchayats (GPs) in the State as of March 2013.

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 kilometres (sqkm). As per the Census 2011, the total population of the State was 6.85 crore, of which 5.15 crore (75.18 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	6.85	121.02
Population (Rural)	Crore	4.33	5.15	83.31
Population (Urban)	Crore	1.32	1.70	37.71
Population Density	Persons per sqkm	165	200	382
Decadal Growth Rate	Percentage	28.33	21.38 ³	17.64
Sex Ratio	Females per 1,000 males	921	928	940

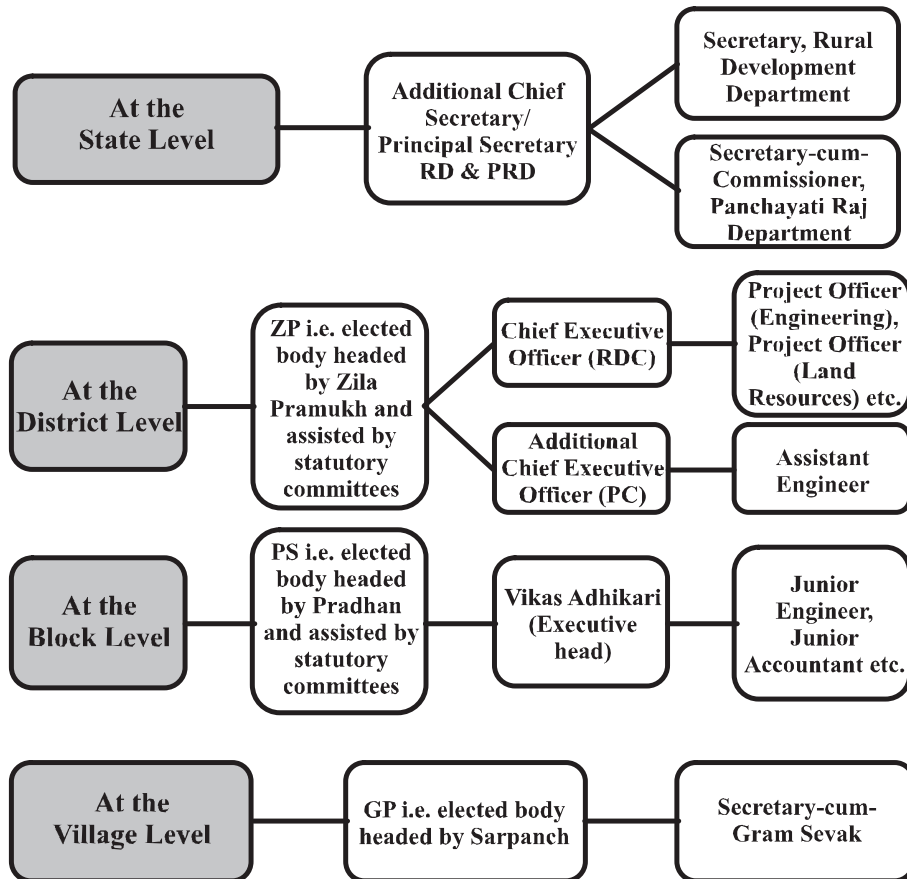
Source: http://www.rajcensus.gov.in/Pe_DATA.html

1. Zila Parishad at District level, Panchayat Samiti at Block level and Gram Panchayat at Village level
2. This does not include PS, Rishabhdev which is not functional due to stay by court of law
3. It has been calculated on actual figures of population of Census 2001 (5,64,73,122) and Census 2011 (6,85,48,437)

1.3 Organisational set up

Rural Development Department (RDD) and Panchayati Raj Department (PRD) dealing with the affairs of the PRIs are under the administrative control of Additional Chief Secretary/Principal Secretary, 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



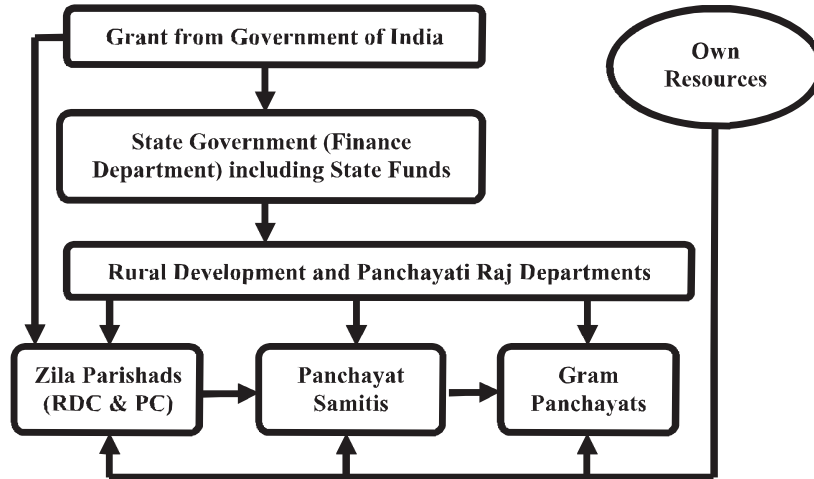
1.4 District Planning Committee

In pursuance of Article 243ZD of the Constitution of India and Section 121 of RPRA, 1994, the State Government constitutes District Planning Committee (DPC) in all the districts of the State. The main objective of DPC is to consolidate the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft developmental plan for the district as a whole and forward it to the State Government. During 2012-13, it was observed that out of 33 districts only 1 district (Pratapgarh) held the prescribed four DPC meetings, 28 districts did not hold the prescribed number of meetings and the remaining 4 districts (Baran, Bikaner, Churu and Hanumangarh) did not hold any meeting at all.

1.5 Financial position of PRIs

1.5.1 The receipts and expenditure of PRIs from all the sources are compiled by PRD and RDD separately at the State level. The schemes of PRD and RDD are executed by all the three tiers of PRIs. 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 PRIs as per PRD

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 schemes compiled by PRD for the period 2008-13 based on data made available (October 2013) is given in Table 1.2 below:

Table 1.2: Financial position of PRIs as per PRD

(₹ in crore)					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
(A) Revenue receipts					
Own Tax	NA	NA	NA	NA	NA
Own Non-Tax	NA	NA	NA	NA	2.90
Total Own Revenue	-	-	-	-	2.90
Grants-in-aid from State Government	540.40	853.21	1,051.77	2,197.21	2,928.48
12th/13th Finance Commission grants	369.00	246.00	370.10	609.40	953.81*
Total Receipts	909.40	1,099.21	1,421.87	2,806.61	3,885.19
(B) Expenditure					
Revenue expenditure (Pay and allowances and maintenance expenditure)	881.88	1,024.09	1,416.22	2,805.64	3,863.29
Capital expenditure	27.52	75.12	5.65	0.97	19.00
Total Expenditure	909.40	1,099.21	1,421.87	2,806.61	3,882.29
Source: As per data provided by PRD NA : Not available					
* It includes ₹ 66.95 crore pertaining to year 2011-12					

The above table indicated that:

- Grant-in-aid from the State Government increased by 33.28 per cent in 2012-13 over the previous year.
- Similarly, 13th Finance Commission's (FC) grants also increased by 56.52 per cent in 2012-13 over the previous year.
- Total receipts and expenditure increased by 38.43 and 38.33 per cent respectively in 2012-13 over the previous year.
- Own revenue of ₹ 2.90 crore of PRIs for the year 2012-13 was much less than one per cent of total receipts of PRIs, which indicates total dependence on the Government funds for not only undertaking developmental works but also for even providing basic civic amenities to the people. The erosion of fiscal autonomy of PRIs is a matter of concern that needs to be addressed for improving governance at the grassroots level.
- Capital expenditure on developmental works (₹ 19 crore) was meagre at less than half per cent of the total expenditure in the year 2012-13.

1.5.3 Financial position of PRIs compiled by RDD

The position of receipts and expenditure of the rural development schemes compiled by RDD for the years 2009-13 is given in **Table 1.3** below:

Table 1.3: Financial position of PRIs as per RDD

Particulars	2009-10			2010-11			2011-12			2012-13		
	CSS	SSS	Total	CSS	SSS	Total	CSS	SSS	Total	CSS	SSS	Total
Opening balance	455.67	124.25	579.92	378.26	157.59	535.85	745.84	206.32	952.16	770.62	253.86	1,024.48
Receipts	775.29	185.25	960.54	977.99	248.81	1,226.80	1,010.65	259.01	1,269.66	648.18*	535.86*	1,184.04
Total available funds	1,230.96	309.50	1,540.46	1,356.25	406.40	1,762.65	1,756.49	465.33	2,221.82	1,418.80	789.72	2,208.52
Expenditure	811.34	154.53	965.87	849.14	182.09	1,031.23	1,070.03	216.69	1,286.72	885.28	431.78	1,317.06
Closing balance	419.62	154.97	574.59	507.11	224.31	731.42	686.46	248.64	935.10	533.52	357.94	891.46
Percentage of expenditure to the total available funds	65.91	49.93	62.70	62.61	44.81	58.50	60.92	46.57	57.91	62.40	54.68	59.64

Source: As per data provided by RDD
 CSS: Centrally Sponsored Scheme, SSS: State Sponsored Scheme
 * This includes receipt of ₹ 5.40 crore and ₹ 0.01 crore on account of interest on available funds and other income in CSS and SSS respectively

The above table indicated that:

- There was a difference of ₹ 89.38 crore between the closing balance of 2011-12 and the opening balance of 2012-13. The reasons for the difference were not intimated to audit though called for (September 2013). Similar irregularities were also commented in the previous Audit Reports but they still persist. Remedial action for reconciliation of the differences needs to be taken by the State Government.
- Total receipts from Central and State Government decreased by 6.74 per cent while there was increase in expenditure by 2.36 per cent in 2012-13 in comparison to 2011-12.

- During 2012-13, only 59.64 per cent of the available funds were utilised. This indicated slow execution of rural development schemes.

1.5.4 Finance Commission Grants

1.5.4.1 Thirteenth Finance Commission grants

The position of grants released by GoI and further released by the State Government to PRIs during 2012-13 under 13th FC is given in **Table 1.4** below:

Table 1.4: Grants of 13th FC

Year to which grants relate	Nature of grant	Grants released by				No. of days after which grants were released by the State Government
		GoI to the State Government		the State Government to PRIs		
		Amount	Date	Amount	Date	
2011-12	Performance Grant II	12.00	28.03.2012	12.00	05.04.2012	8
	Extra Performance Grant	54.95	31.03.2012	54.95	10.04.2012	10
	Total	66.95		66.95		
2012-13	General Basic Grant I	248.50	25.07.2012	248.50	30.07.2012	5
	General Basic Grant II	273.66	11.03.2013	273.66	14.03.2013	3
	General Performance Grant I	170.54	02.01.2013	170.54	03.01.2013	1
	General Performance Grant II	187.32	15.03.2013	187.32	19.03.2013	4
	Extra Performance Grant	-	-	-	-	-
	Special Area Basic Grant I	1.71	02.01.2013	1.71	03.01.2013	1
	Special Area Basic Grant II	1.71	11.03.2013	1.71	14.03.2013	3
	Special Area Performance Grant I	1.71	02.01.2013	1.71	03.01.2013	1
	Special Area Performance Grant II	1.71	15.01.2013	1.71	19.01.2013	4
Total	886.86		886.86			

Source: As per data provided by PRD

It would be seen from the above table that during 2012-13 the State Government released 13th FC grants to PRIs within the prescribed 15 days from dates of credit to the State Government accounts by GoI.

1.5.4.2 Fourth State Finance Commission grants

As per recommendations made by the Fourth State Finance Commission (SFC) in its second interim report (September 2012) ₹ 980.47 crore were to be distributed among GPs, PSs and ZPs in the ratio of 85, 12 and 3 per cent respectively. Accordingly, the State Government transferred Fourth SFC grants of ₹ 980.47 crore to PRIs (ZPs: ₹ 29.41 crore, PSs: ₹ 117.66 crore and GPs: ₹ 833.40 crore) during 2012-13.

1.6 Devolution of funds, functions and functionaries to PRIs

State Government decided (June 2003) to devolve all 29 subjects listed in the Eleventh Schedule of the Constitution to the PRIs. PRD informed (July 2013) that funds and functionaries of 15 subjects and functions of 23 subjects had been transferred to PRIs (details given in *Appendix-I*). However, devolution

of funds, functions and functionaries of 5 subjects relating to Public Health Engineering Department, Public Works Department and Food and Civil Supply Department had been withdrawn temporarily in January 2004 by PRD.

1.7 Outstanding utilisation certificates

As of March 2013, against grants of ₹ 3,794.83 crore⁴ released (up to March 2013) by PRD to ZPs under 13th FC and Fourth SFC, utilisation certificates (UCs) of ₹ 2,980.09 crore⁵ were pending against executing agencies.

Similarly, as of January 2014, against grants of ₹ 2,785.68 crore released (up to March 2013) by RDD to ZPs, UCs of ₹ 1,919.97 crore were pending against executing agencies.

In the absence of UCs in respect of more than 74 per cent of grants released to ZPs, it is hard to establish their utilisation for the intended purposes.

1.8 Accounting arrangements and maintenance of accounts

1.8.1 Accounting arrangements

As per recommendations of 13th FC, an accounting framework and codification pattern consistent with the Model Panchayat Accounting System should be 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 ZP, PS and GP.

It was observed that annual accounts for the year 2012-13 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, GoI have been adopted for mandatory implementation with effect from 1 April 2011. PRD intimated (September 2013) that out of 9,458 PRIs, only 2,199 PRIs (32 ZPs, 211 PSs and 1,956 GPs) closed their year books for the period 2012-13 on Panchayati Raj Institution Accounting Software (PRIASoft), which is a centralised accounting package that facilitates maintenance of accounts under Model Accounting System. This indicated that in the absence of closure of year books by all the PRIs, consolidation of annual accounts was not made at the state level, as per the recommendations of 13th FC.

Besides, database formats for district and state level as recommended by the Comptroller & Auditor General of India (CAG) were also not being maintained by the PRD. For implementation of the aforesaid database formats, necessary amendment in the Rules 245 and 246 of RPRRs, 1996 was under consideration of Law Department (July 2013).

4. Grants released under 13th FC: ₹ 1,933.31 crore and Fourth SFC: ₹ 1,861.52 crore

5. UCs pending under 13th FC: ₹ 1,478.34 crore and Fourth SFC: ₹ 1,501.75 crore

1.8.2 Delayed submission of annual accounts

1.8.2.1 Annual accounts of ZPs (Rural Development Cell) (RDC) for the year 2011-12 was required to be sent to RDD by 30 September 2012.

It was observed that 28 out of 33 ZPs (RDC), sent their annual accounts for the year 2011-12 with delays ranging from 92 to 437 days while 5 ZPs (RDC) (Churu, Jalore, Nagaur, Pali, and Sriganganagar) did not send their annual accounts to RDD as of September 2013 (*Appendix-II*). It was further observed that ZP (RDC), Pali did not send its annual accounts since 1994-95 and ZP (RDC), Jalore did not send its annual accounts for the year 2010-11 also.

1.8.2.2 As per Rule 247(2) of RPRRs, 1996, every ZP is required to prepare annual accounts of receipts and expenditure and furnish the same to the State Government by 15 May every year.

It was observed that 13 out of 33 ZPs (PC) sent their annual accounts within the prescribed time while 20 ZPs (PC) sent their annual accounts for the year 2011-12 with delays ranging from 1 to 307 days (*Appendix-II*).

1.9 Audit arrangement

1.9.1 The Director, Local Fund Audit Department (LFAD) is the Statutory Auditor of the accounts of the PRIs under the RPRA, 1994. Section 18 of the Rajasthan Local Fund Audit Act, 1954 requires Director, LFAD to submit his Annual Consolidated Report to the State Government and the Government shall lay this report before the State legislature. The Annual Consolidated Report of LFAD, Rajasthan for the year 2011-12 has been laid on the table of the State legislature on 22 March 2013.

1.9.2 CAG conducts audit of PRIs under Section 14 of CAG's (Duties, Powers and Conditions of Service) Act, 1971 and Section 75(4) of the RPRA, 1994 (as amended on 27 March 2011) also empowers the CAG to conduct audit of the accounts of PRIs and submit such Audit Report to the State Government for its placement in the State legislature.

1.9.3 Certification of accounts

As per Rule 23 (h) of the Rajasthan Local Fund Audit Rules, 1955, LFAD is required to certify the correctness of the annual accounts of PRIs. However, only transaction audit was being conducted by the LFAD. Director, LFAD intimated (July 2013) that on completion of maintenance of accounts by PRIs, certification of accounts will be done, for which PRD has already issued instructions to PRIs. Due to non-certification of accounts by Director, LFAD correctness of the accounts of PRIs could not be verified in audit.

1.9.4 Audit coverage

The position of audit coverage by office of the Principal Accountant General (General and Social Sector Audit) is indicated in **Table 1.5** below:

Table 1.5: Audit coverage of PRIs

Name of PRI	Audit coverage in terms of numbers		Audit coverage in terms of expenditure	
	2012-13		2012-13	
	Total	Audit coverage	Total expenditure	Audit coverage (Average basis)
(₹ in crore)				
GP	9,177	605	2,497.48	164.65
PS	248	82	752.03	248.66
ZP (PC)	33	33	632.78	632.78
ZP (RDC)	33	33	1,317.06	1,317.06
Total	9,491	753	5,199.35	412.51

Source: Total expenditure figures as per information supplied by PRD and RDD

1.9.5 Arrears of Audit

The Director, LFAD is the Statutory Auditor of the accounts of PRIs. There were arrears of audit of 6,038 units of PRIs (17 ZPs, 159 PSs and 5,862 GPs) as of March 2013 due to vacant posts and election duties of staff as intimated by Director, LFAD (July 2013).

1.9.6 Lack of response to Audit observations

1.9.6.1 As of March 2013, 55,479 paragraphs included in 7,094 inspection reports (IRs) of PRIs issued by Director, LFAD were pending for settlement. Out of 55,479 paragraphs, 7,404 paragraphs involving ₹ 19.55 crore related to embezzlement.

1.9.6.2 As of September 2013, 2,167 IRs comprising 25,842 paragraphs issued by the Principal Accountant General in respect of ZPs and PSs (including GPs) were pending for settlement as detailed in **Table 1.6** below:

Table 1.6: Outstanding IRs and paragraphs

Year	IRs	Paragraphs
Up to 2004-05	704	4,418
2005-06	229	2,390
2006-07	165	1,922
2007-08	185	2,494
2008-09	200	3,349
2009-10	163	2,689
2010-11	116	1,836
2011-12	215	3,614
2012-13	190	3,130
Total	2,167	25,842

This indicated lack of prompt response on the part of officials of PRIs which resulted in recurrence of the deficiencies and lapses pointed out earlier.

1.10 Conclusion

- Annual Accounts were neither maintained in the prescribed formats nor submitted to RDD/PRD within the stipulated time.
- Certification of accounts of PRIs was not being done by Director, LFAD.

- Substantial portion of CSS/SSS grants was not utilised for the intended benefits of the rural people.
- There were huge pendency of audit observations and delays in their settlement. The Government should issue suitable instructions to PRIs to ensure prompt response to the audit observations.
- The PRIs should take effective steps to augment their own resources so as to minimise dependence on government assistance and to provide better civic facilities.