

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

1.1 Introduction

Government of India (GoI) enacted the 73rd Constitutional Amendment Act in 1992 (Act) which envisaged decentralisation of powers to the rural self-governing bodies, viz., *Gram Panchayat* (GP) at the village level, *Kshetra Panchayat* (KP) at the intermediate or block level and *Zila Panchayat* (ZP) at the district level. The system of PRIs aimed at increasing the participation of people in local governance and effective implementation of rural development programmes. The responsibility of overall planning, co-ordination and supervision of developmental schemes vested in ZP. GoI provide funds to PRIs through successive Finance Commissions.

The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities, as to enable them to function as institutions of self-government. Consequently, the UP *Panchayati Raj* Act (UP PR Act), 1947 and Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat Adhiniyam* (UP KP & ZP Act), 1961 were amended in 1994 and Rules framed thereunder.

Rule 186 of Uttar Pradesh *Panchayati Raj* (17th amendment) Act, 2011 laid down the provisions for tabling the Annual Report of Chief Audit Officer, Cooperative Societies and *Panchayats* (CAO) and Annual Technical Inspection Report (ATIR) of the Comptroller and Auditor General of India (CAG) before the State Legislature. In pursuance to this, State Government constituted *Panchayati Raj Samiti* in March 2014 to review and monitor both the reports.

1.2 Status of devolution of Funds, Functions and Functionaries to *Panchayati Raj* Institutions

Eleventh schedule of the Constitution of India provided for the transfer of Funds, Functions and Functionaries to *Panchayati Raj* Institutions (PRIs) to enable them to function as institutions of self-government. Accordingly, the UP State Legislature amended the UP PR Act, 1947 and UP KP & ZP Act, 1961 by UP Act no. 9 of 1994 and devolved powers and functions to GPs as specified in Section 15 of the UP PR Act, 1947 and to KPs and ZPs as specified in Schedule I and Schedule II to UP KP & ZP Act, 1961. Out of 29 (*Appendix 1.1*), only 16 functions (*Appendix 1.2*) mentioned in the Eleventh Schedule of the Constitution have been devolved to PRIs as of 31 January 2015.

1.3 State Profile

Uttar Pradesh is the fifth largest State in the country in terms of size and spans an area of 2.41 lakh square kilometre. As per the Census 2011, total population of the State is 19.98 crore, of which 77.73 *per cent* resides in rural areas. The comparative demographic and development profile of the State *vis-a-vis* the national profile is given in **Table 1**.

Table 1: Important statistics of the State

Indicator	Unit	State value	National value
Population	Crore	19.98	121.07
Population density	Per square km.	829	382
Rural population	<i>Per cent</i>	77.73	68.84
Number of PRIs	Number	52,810	2,46,628
Number of ZPs	Number	75	598
Number of KPs	Number	821	6,391
Number of GPs	Number	51,914	2,39,639
Gender ratio	Females per 1000 males	912	940
Literacy	<i>Per cent</i>	67.68	74.04

(Source: Thirteenth Finance Commission, Director, *Panchayati Raj*, Lucknow and Census Report, 2011)

1.4 Audit Mechanism

1.4.1 Primary Auditor

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

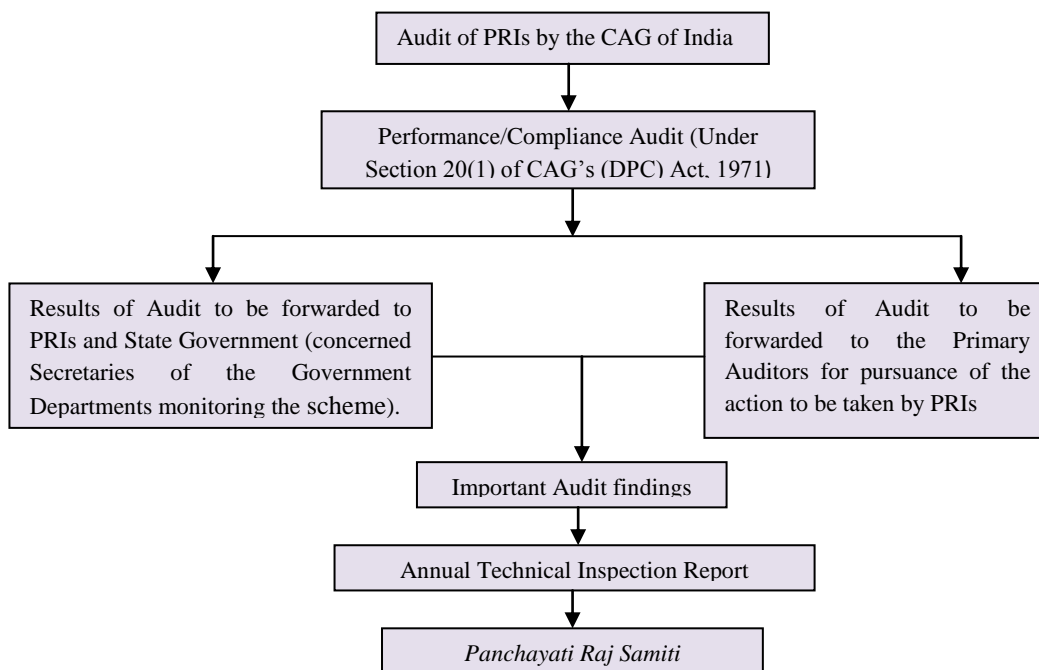
1.4.2 Audit Mandate of the CAG

The Eleventh Finance Commission recommended Technical Guidance and Support (TGS) for proper maintenance of accounts of PRIs and their audit by CAG. Para 10.121 and 10.122 of the recommendations of Thirteenth Finance Commission stipulate that CAG is to be entrusted with TGS for all Local Bodies of all States and provide for placing of ATIR of the CAG as well as Annual Report of the Director of Local Fund Audit before the State Legislature which will provide a credible assurance of the audit of accounts. In pursuance of the finance commission recommendations TGS entrusted to CAG is given as under:

- (i) TGS to the audit of PRIs (to Local Fund Auditor/Director, Local Fund Audit (DLFA)) is given by the CAG under Section 20 (1) of CAG's (DPC) Act, 1971.
- (ii) The audit reports are sent to Director, PRI, State Government and CAO, for pursuance of action to be taken by PRIs.

The procedure of audit in PRIs is given in **Chart 1**.

Chart 1: Procedure of audit in PRIs



The audit objections were communicated to the Heads of the Offices, Director, *Panchayati Raj* and CAO. Details of outstanding audit objections and their amounts are given in **Table 2**.

Table 2: Details of outstanding audit objections as on 31 March 2014

(₹ in crore)

Sl. No.	Year	Opening balance of para		Para added during the year		Para settled during the year		Outstanding para	
		No.	Value	No.	Value	No.	Value	No.	Value
1	2009-10	9,924	507.40	2,775	388.76	5	0.79	12,694	895.37
2	2010-11	12,694	895.37	1,308	162.20	1	0.00	14,001	1,057.57
3	2011-12	14,001	1,057.57	2,033	242.37	-	-	16,034	1,299.94
4	2012-13	16,034	1,299.94	482	223.16	-	-	16,516	1,523.10
5	2013-14	16,516	1,523.10	3,310	1,073.44	-	-	19,826	2,596.54

(Source: Register of Audit Inspection Reports)

It would be seen from **Table 2** that 19,826 paragraphs with money value of ₹ 2,596.54 crore were outstanding at the close of 2013-14. No action was taken for settlement of paragraphs for the period 2011-14 which indicates that the entities were not responsive to audit observations.

On this being pointed out, CAO stated (July 2014) that review of the cases pending for settlement was not undertaken due to non-receipt of compliance report from the administrative departments.

1.5 Maintenance of Accounts

Adoption of accounting formats prescribed by the CAG

PRIs maintain their accounts in the formats prescribed under UP KP & ZP Act, 1961. The Eleventh Finance Commission recommended exercising control and supervision over the maintenance of accounts of all the three tiers of PRIs by the CAG. Thirteenth Finance Commission also recommended (Para 10.161) that the State Government would be eligible to draw down its performance grant for succeeding fiscal year on production of a certificate that accounting system as recommended by the CAG has been introduced in all the Rural and Urban Local Bodies.

The CAG had prescribed Model Accounting System developed by National Informatics Centre for PRIs on web based software (PRIASoft) comprising of eight accounting formats. Ministry of *Panchayati Raj* (MoPR), GoI advised (October 2009) the State Government to introduce PRIASoft with effect from April 2010. Subsequently (January 2011), the State Government made it mandatory to maintain accounts on PRIASoft with effect from 1 April 2010. However, out of eight formats, reports in only three formats (Annual Receipt & Payment Account, Consolidated Abstract Register and Monthly Reconciliation Statement) were being generated by ZPs and KPs as of October 2014. In GPs only Annual Receipt and Payment Account and Consolidated Abstract Register are being generated as of October 2014.

1.6 Organisational structure of *Panchayati Raj* Institutions

Social sector programmes/schemes are implemented by PRIs, parallel bodies and line departments. The organisational chart of PRIs' parallel bodies and line departments with the administrative setup in Blocks, Districts and State level is given in *Appendix 1.3*.

1.7 Standing Committees

For proper functioning of the three tiers of *Panchayats*, Government of Uttar Pradesh (GoUP), vide order no. 4430/33-1-99-S.P.R./99 dated 29 July 1999, constituted six standing committees in each tier of *Panchayats*. Brief introduction on the working of PRIs and various standing committees involved in financial matters and implementation of schemes is given in **Table 3**.

Table 3: Details of Standing Committees

Tier Of PRI	Head of the Standing Committee	Names of the Standing Committees	Roles and responsibilities of the Standing Committees
Zila Panchayat	Apar Mukhya Adhikari/ Adhyaksh, Zila Panchayat	(i) <i>Niyojan Evam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Evam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandhan Samiti</i>	As per UP Government Notification No. 4430/33-1-99/ SPR/99-Dated 29 July 1999 functions of standing committees are enumerated (<i>Appendix 1.4</i>)

<i>Kshetra Panchayat</i>	<i>Pramukh</i>	(i) <i>Niyojan Avam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Avam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandhan Samiti</i>	---As above---
<i>Gram Panchayat</i>	<i>Pradhan</i>	(i) <i>Niyojan Avam Vikas Samiti</i> (ii) <i>Shiksha Samiti</i> (iii) <i>Nirman Karya Samiti</i> (iv) <i>Swasthya Avam Kalyan Samiti</i> (v) <i>Prashasanik Samiti</i> (vi) <i>Jal Prabandhan Samiti</i>	As per UP Government Notification No. 4077/33-2-99-48G/99 Dated 29 July 1999 functions of standing committees are enumerated (Appendix 1.4)

(Source: Director, *Panchayati Raj*, Uttar Pradesh, Lucknow)

1.8 District Planning Committee

Article 243 ZD of the Constitution of India (Constitution) inserted vide Seventy Fourth Constitutional Amendment Act in 1993 states that "There shall be constituted in every State at the district level a District Planning Committee (DPC) to consolidate the plans prepared by the *Panchayats* and the Municipalities in the district and to prepare a draft development plan for the district as a whole". The Government enacted the Uttar Pradesh District Planning Committee Act, 1999 in July 1999 but DPCs in the State were constituted in April 2008.

1.9 Financial Profile

1.9.1 Budgeting and Budgetary Process

Budgeting and budgetary process entails preparation and examination of the annual budget estimates and subsequent control over expenditure to ensure that it is kept within the authorised grants or appropriations. Section 110 and 115 of Uttar Pradesh *Kshetra Panchayat* and *Zila Panchayat* manual stipulates each PRI to prepare the annual budget.

It was noticed in audit during 2013-14 that the annual budget in 149 out of 187 KPs and 1,187 out of 1,274 GPs test-checked was not being prepared. Due to non-preparation of budget PRIs could not plan the implementation of schemes/programme resulted in substantial amount remaining unutilised in each financial year as discussed in Paragraph number 1.10.1.

1.9.2 Fund flow to PRIs

The resource base of PRIs consists of own receipts, State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and funds from Centrally Sponsored Schemes (CSS) for carrying out maintenance and development activities. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Table 4 (A) & 4 (B)** and Fund Flow in **Chart 2**.

Table 4 (A): Fund Flow - Source and custody of funds in PRIs

Nature of fund	ZPs		KPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own Receipt	Own resources	<i>Zila Nidhi</i>	NA	<i>Kshetra Nidhi</i>	Own resources	<i>Gram Nidhi</i>
State Finance Commission	State Government	<i>Zila Nidhi</i>	State Government	<i>Kshetra Nidhi</i>	State Government	<i>Gram Nidhi</i>
Central Finance Commission	GoI	<i>Zila Nidhi</i>	GoI	<i>Kshetra Nidhi</i>	GoI	<i>Gram Nidhi</i>
Centrally Sponsored Schemes	GoI	<i>Zila Nidhi</i>	GoI	<i>Kshetra Nidhi</i>	GoI	<i>Gram Nidhi</i>

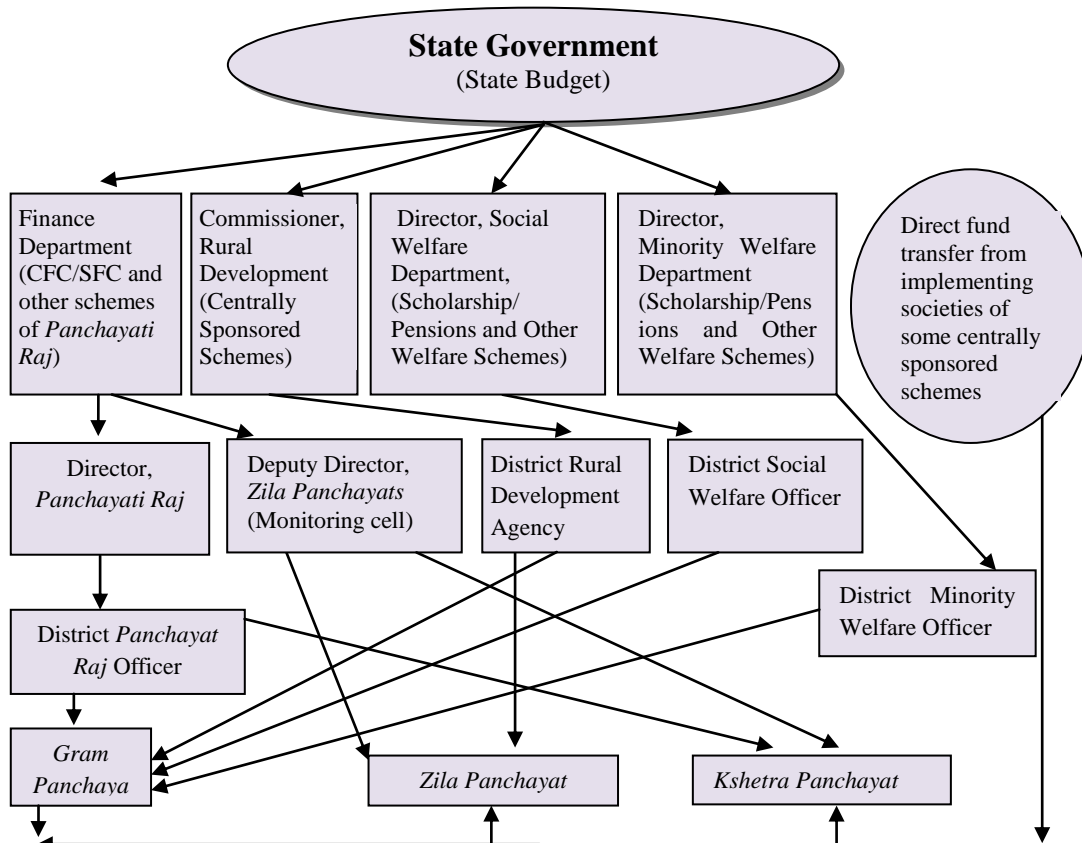
(Source: Director, *Panchayati Raj*, Uttar Pradesh, Lucknow)

Table 4 (B): Fund flow arrangements in major Centrally Sponsored Flagship Schemes

Sl. No.	Scheme	Fund flow arrangement
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GoI and GoUP transfer their respective shares of MGNREGS funds in a Bank Account, called State Employment Guarantee Fund (SEGF), set up outside the State Accounts. Commissioner, Rural Development is the custodian of SEGF and administers onward transfer of funds.
2	<i>Sarva Shiksha Abhiyan</i> (SSA)	GoI and GoUP transfer their shares of SSA funds in Bank Account of the State Implementing Society (SIS) outside the State Accounts. SIS is a Society set up by GoUP for implementation of SSA headed by a State Project Director (SPD) who is the administrator of funds transfers to District Project Officer (DPO)/SSA for each district. Finance Controller and Senior Finance Officer of SSA are joint custodians of SSA Bank Account Funds at State level. At the district level, DPO and Assistant Accounts Officer in DPO's Office are joint custodians of the Bank Account.
3	<i>Indira Awas Yojana</i> (IAY)	GoI transfers its share directly to DRDA. DRDA draws GoUP's share from treasury and keep both in a Bank Account. Project Director/DRDA and Chief Development Officer (CDO) are administrator of the fund and responsible for transfer of the fund to the beneficiaries bank account for implementation of the scheme.
4	Rural Drinking Water Supply Programme (RDWSP)	For Accelerated Rural Water Supply Programme, GoUP transfers funds to Uttar Pradesh <i>Jal Nigam</i> (UPJN) centrally at Lucknow for the entire State. UPJN transfers funds to its district units. For other Rural Water Supply Schemes, DDO draws funds from district treasury out of allotments placed at his disposal and gives it to UPJN unit in the districts for execution.
5	Total Sanitation Campaign (TSC)	GoI transfers its share to state sanitation mission for its onward transfer to the bank account of District Water and Sanitation Mission. DPRO, ex-officio Secretary of the Mission, draws GoUP's share from district treasury on the basis of allotment received from GoUP and also deposits it in the Mission's Bank Account.

(Source: Director, *Panchayati Raj* and Commissioner, Rural Development, Lucknow)

Chart 2: Fund flow

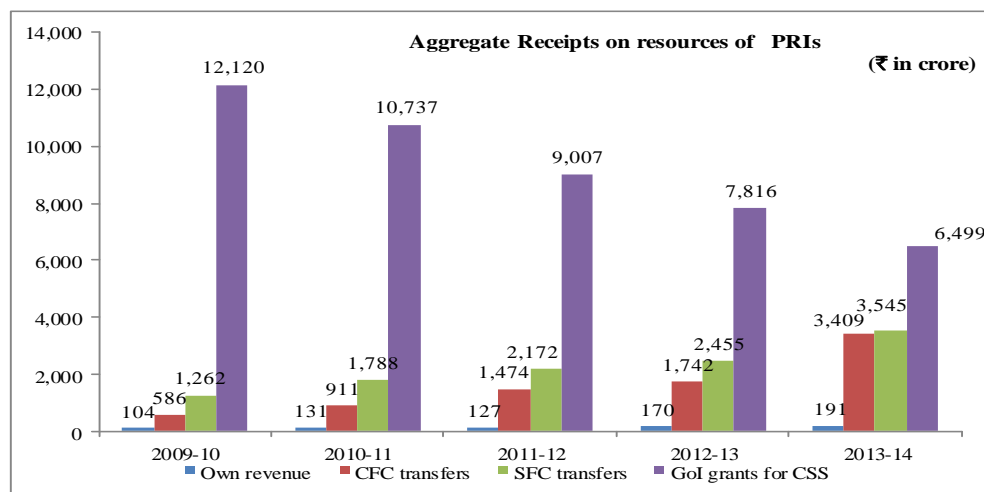


(Source: Director, Panchayati Raj, Uttar Pradesh Lucknow)

1.10 Aggregate Receipts

The position of aggregate grants received by PRIs under the recommendations of CFC, SFC, revenue realised from their own sources by charging rent, taxes, fees, etc., from the people as envisaged (*Appendix 1.5*) in Rule 37 of UP PR Act, 1947 and grants released under CSSs for rural development during 2009-14 (*Appendix 1.6*) is depicted in **Chart 3**.

Chart 3: Resources –trends on resources of PRIs



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

It would be seen from the **Chart 3** that there is an increasing trend in SFC and CFC grants, whereas GoI grants for certain CSS showed a decreasing trend during 2009-14.

1.10.1 Financial position of test-checked PRIs

During 2009-13, out of 52,810 records of 4,275 PRIs (ZPs: 136, KPs: 447 and GPs: 3,692) were test-checked in audit. The year-wise financial status of test-checked PRIs during 2009-13 is given in **Table 5**.

Table 5: Financial position of test-checked PRIs during 2009-13

(₹ in crore)

Year	Number of PRIs test-checked	Opening balances	Funds received	Total funds available	Expenditure (per cent)	Closing balances
ZPs						
2009-10	55	381.80	682.90	1,064.70	646.94(61)	417.76
2010-11	11	100.57	145.29	245.86	139.07(57)	106.79
2011-12	29	192.37	330.72	523.09	294.87(56)	228.22
2012-13	41	430.05	642.83	1,072.88	442.28(41)	630.60
Total	136					
KPs						
2009-10	147	86.13	248.56	334.69	246.26(74)	88.43
2010-11	54 ¹	33.21	102.17	135.38	87.36 (65)	48.02
2011-12	59	35.71	69.36	105.07	64.16(61)	40.91
2012-13	187 ²	152.37	220.77	373.14	213.58(57)	159.55
Total	447³					
GPs						
2009-10	1,891	78.85	252.95	331.80	220.41 (66)	111.39
2010-11	340 ⁴	26.32	83.71	110.03	76.31 (69)	33.72
2011-12	187 ⁵	10.45	22.69	33.14	24.01 (72)	9.13
2012-13	1,274 ⁶	65.64	128.04	193.68	141.45 (73)	52.23
Total	3,692					

(Source: Register of Audit Inspection Reports)

It would be seen from the **Table 5** that substantial funds received by PRIs remained unutilised in each financial year during 2009-13. Decreasing trend of utilisation of funds was also noticed in ZPs and KPs.

1.10.2 Devolution of SFC grant

The 73rd Constitutional Amendment Act, 1992 provided for constitution of State Finance Commission (SFC) to devolve finances to *Panchayats* from the Consolidated Fund of the State (Article 243-I).

¹ Financial position of 12 out of 54 KPs was not available, hence not included in the table.

² Financial position of one out of 187 KPs was not available, hence not included in the table.

³ Total number of KPs audited in the period i.e. 2009-13.

⁴ Financial position of seven out of 340 GPs was not available, hence not included in the table.

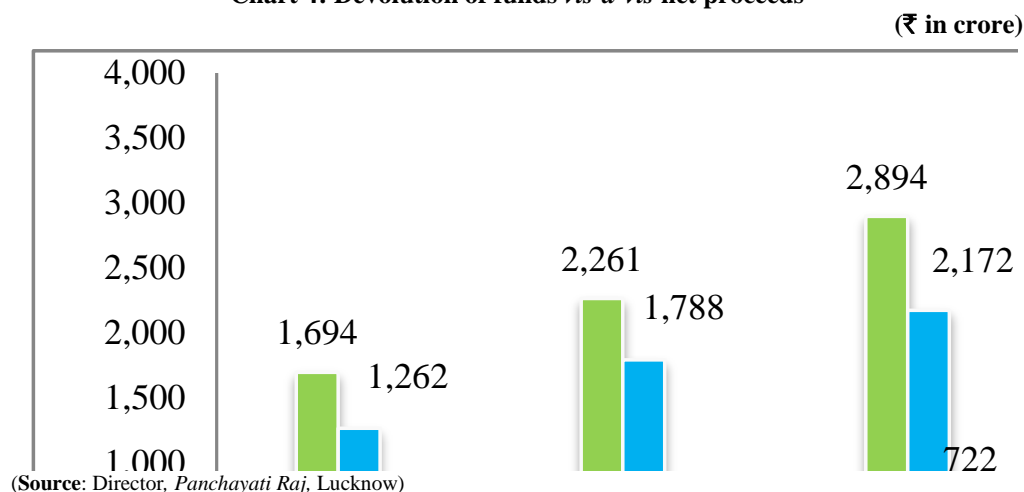
⁵ Financial position of one out of 187 GPs was not available, hence not included in the table.

⁶ Financial position of 13 out of 1,274 GPs was not available, hence not included in the table.

The Second SFC gave its recommendation in 2002, wherein five *per cent* of the net proceeds of total tax revenue of the State was to be devolved to PRIs. Considering the importance and need of PRIs, the Third SFC in its recommendations (2008), increased it to 5.5 *per cent* of the net proceeds of total tax revenue.

The devolution of funds and actual releases there against to PRIs by GoUP during 2009-14 is depicted in **Chart 4** and **Appendix 1.7**.

Chart 4: Devolution of funds vis-à-vis net proceeds



It would be seen from the **Chart 4** that during 2009-14, ₹ 11,222 crore was devolved against ₹ 13,706 crore resulting in overall short devolution of funds ₹ 2,484 crore, which ranged between 3 and 26 *per cent*. The maximum shortfall was noticed during 2012-13 during which only ₹ 2,455 crore was devolved against the admissible ₹ 3,195 crore.

1.11 Utilisation of funds

1.11.1 Utilisation of grants received under CFC

The position of funds available under Central Finance Commission and its utilisation thereof is given in **Table 6**.

Table 6: Utilisation of grants received under CFC

(₹ in crore)

Year	Total grants available	Grants utilized	Grants not utilized	
			Lapsed	Balance
2009-10	585.60	580.25	5.35	0.00
2010-11	911.29	911.29	0.00	0.00
2011-12	1,473.51	559.61	0.00	913.90
2012-13	1,742.36	1,498.45	0.00	243.91
2013-14	3,408.67	3,408.67	0.00	0.00

(Source: Director, Panchayati Raj, Lucknow)

Table 6 indicates that during 2011-12 and 2012-13 total amounts of grants could not be utilised. The reasons for unutilised grants during 2011-12 and

2012-13 were not on record. However, entire grant (₹ 3,408.67 crore) for 2013-14 was utilised.

1.11.2 Utilisation of grants received under SFC

The status of grants available under SFC, its utilisation and non-utilisation thereof during 2009-14 is given in **Table 7**.

Table 7: Utilisation of Grants received under SFC

(₹ in crore)

Sl. No.	Year	Grants received	Grants utilised	Grants not utilised	
				Lapsed	Balance
1	2009-10	1,262.07	1,262.07	0.00	0.00
2	2010-11	1,787.57	1,787.57	0.00	0.00
3	2011-12	2,172.37	2,077.44	4.22	90.71
4	2012-13	2,455.04	1,020.34	0.00	1,434.70
5	2013-14	3,544.81	2,897.29	0.00	647.52

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

It is evident from the **Table 7** that ₹ 4.22 crore lapsed during 2011-12 and ₹ 90.71 crore, ₹ 1,434.70 crore and ₹ 647.52 crore remained unutilised at the end of 2011-12, 2012-13 and 2013-14 respectively.

1.11.3 Grants for implementation of CSS

GoI sponsored schemes for rural development were executed by PRIs at the grass root level. The grant released by GoI during 2013-14 to GoUP for implementation of CSSs is given in **Table 8**.

Table 8: Grant for implementation of CSSs

(₹ in crore)

Names of CSS and periods	Grants released		
	Central	State	Total
2013-14			
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	2,896.39	321.82	3,218.21
Indira Awas Yojana (IAY)	1,494.62	459.54	1,954.16
Total Sanitation Campaign (TSC)	367.52	79.30	446.82
Bio gas	0.72	0	0.72
National Rural Livelihood Mission (NRLM)	83.49	65.98	149.47
Pradhanmantri Gram Sadak Yojana (PMGSY)	729.40	0	729.40
Total	5,572.14	926.64	6,498.78

(Source: Commissioner, Rural Development, Lucknow; Finance and Appropriation Accounts and concerned website)

Table 8 indicates that GoI released substantial amount through its various schemes for rural development of the State through CSSs.

1.12 Internal Control Mechanism

Internal control is a system within an organisation that governs its activities effectively to achieve its objectives. It helps to provide reasonable assurance of adherence to Laws, Rules, Regulations and Orders, safeguards against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The internal control and monitoring activities include proper maintenance of accounts, reconciliation of figures, documentation and system of authorisation and approval of payments, segregation of duties, inspection and audit.

1.12.1 Accountability framework by PRIs

A large number of PRIs remained unaudited by CAO Lucknow during 2011-14. The details of audit of PRIs proposed, actually audited and in arrears are given in **Table 9**.

Table 9: Status of PRIs audit by CAO Lucknow

Categories of PRIs	Units to be audited		Units audited		Arrear (<i>per cent</i>)	
	Proposed for current year	Arrear of previous years	Against current	Against arrear	Against current	Against arrear
2011-12						
ZPs	71	182	30	33	41(58)	149(82)
KPs	819	7,277	115	402	704(86)	6,875(94)
GPs	51,257	2,43,599	24,929	19,578	26,328(51)	2,24,021(92)
2012-13						
ZPs	71	190	48	68	23(32)	122(64)
KPs	813	7,579	116	261	697(86)	7,318(97)
GPs	51,674	2,50,349	26,519	16,029	25,155(49)	2,34,320(94)
2013-14						
ZPs	73	145	45	45	28(38)	100(69)
KPs	820	8,015	89	208	731(89)	7,807(97)
GPs	51,674	2,59,475	33,378	22,298	18,296(35)	2,37,177(91)

(Source: CAO, Lucknow)

It would be seen from the **Table 9** that majority of PRIs (ZPs, KPs and GPs due for audit during the year) remained unaudited during 2011-14; as such the financial data of these PRIs was not authenticated.

On this being pointed out, CAO stated (July 2014) that non-production of records by ZPs, KPs and GPs were the main reason for large arrears. The Government should ensure to produce records of the PRIs to the CAO for audit.

Rule 186 of the UP PR Rules, 1947, as amended vide notification no. 854/33-1-2011-126/96 dated 30 March 2011, provides for preparation of annual audit reports of GPs. Annual audit report up to 2009-10 were not prepared by CAO to place before the State legislature. The CAO stated (July 2014) that report for 2010-11 had been prepared and submitted to administrative department.

Thus Annual audit reports for 2011-12 and 2012-13 were yet to be prepared and submitted to the legislature.

1.12.2 Monitoring Mechanism

Based upon the recommendations of Eleventh Finance Commission, the CAG of India had prescribed the accounting formats with coding pattern for each tier of PRIs to strengthen their accounting system and enable the authorities to monitor the progress of receipt and expenditure under different objectives to take further action as required. However, accounts in the prescribed formats were not prepared by the test-checked PRIs. Further, effective implementation of the SFC and CFC schemes was not ensured as grants received under the schemes were not fully utilised.

1.13 Conclusion

- PRIs were not maintaining accounts in the prescribed formats due to which accuracy of accounts could not be ascertained.
- The budgeting and budgetary process was not followed and the State Government did not release the full amount of devolved funds to PRIs.