

CHAPTER-I

AN OVERVIEW OF FINANCES AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

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1.1 Introduction

The 73rd Constitutional amendment gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, regular elections, regular flow of funds through Finance Commissions. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as Local Self Government Institutions (LSGIs). In particular, the PRIs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

A three-tier¹ system of Panchayats was envisaged in the Gujarat Panchayat (GP) Act, 1961. This Act was amended in April 1993 to incorporate the provisions of the 73rd Constitutional Amendment.

1.2 State Profile

The population growth in Gujarat during the last decade (2001-2011) was 19.30 *per cent* and was more than the national average of 17.70 *per cent*. By the year 2011, the population of the State was 6.04 crore, of which women comprised 47.90 *per cent*. The rural population of the State was 3.47 crore (57.45 *per cent*) and urban population was 2.57 crore (42.55 *per cent*). The comparative demographic and developmental picture of the State is given in **Table 1** below-

Table 1 : Important statistics of the State

Indicator	Unit	State value	National value
Population	1,000s	60,440	12,10,570
Population density	<i>per Sq. Km.</i>	308	382
Rural Population	1,000s	34,695	8,33,463
Urban Population	1,000s	25,745	3,77,106
Gender Ratio	Females <i>per</i> 1,000 males	919	943
Population below poverty line	<i>Per cent</i>	23.00	29.80
Literacy	<i>Per cent</i>	78.00	73.00
Birth rate	<i>per</i> 1,000 Population	21.10	21.60
Infant Mortality Rate	<i>per</i> 1,000 live births	36	40
Maternal Mortality Rate	<i>per</i> 1,00,000 live births	122	178
Gross State Domestic Product ²	₹ in crore	6,70,016	93,88,876
Panchayati Raj Institutions (PRIs)	Numbers	14,245	2,44,453
District Panchayats (DPs)	Numbers	26	589
Taluka Panchayats (TPs)	Numbers	223	6,325
Gram Panchayats (GPs)	Numbers	13,883	2,37,539

(Source : Socio-Economic Review 2013-14 of Gujarat and data available on the website of Planning Commission, Ministry of Health & Family Welfare and Ministry of Panchayati Raj, Government of India)

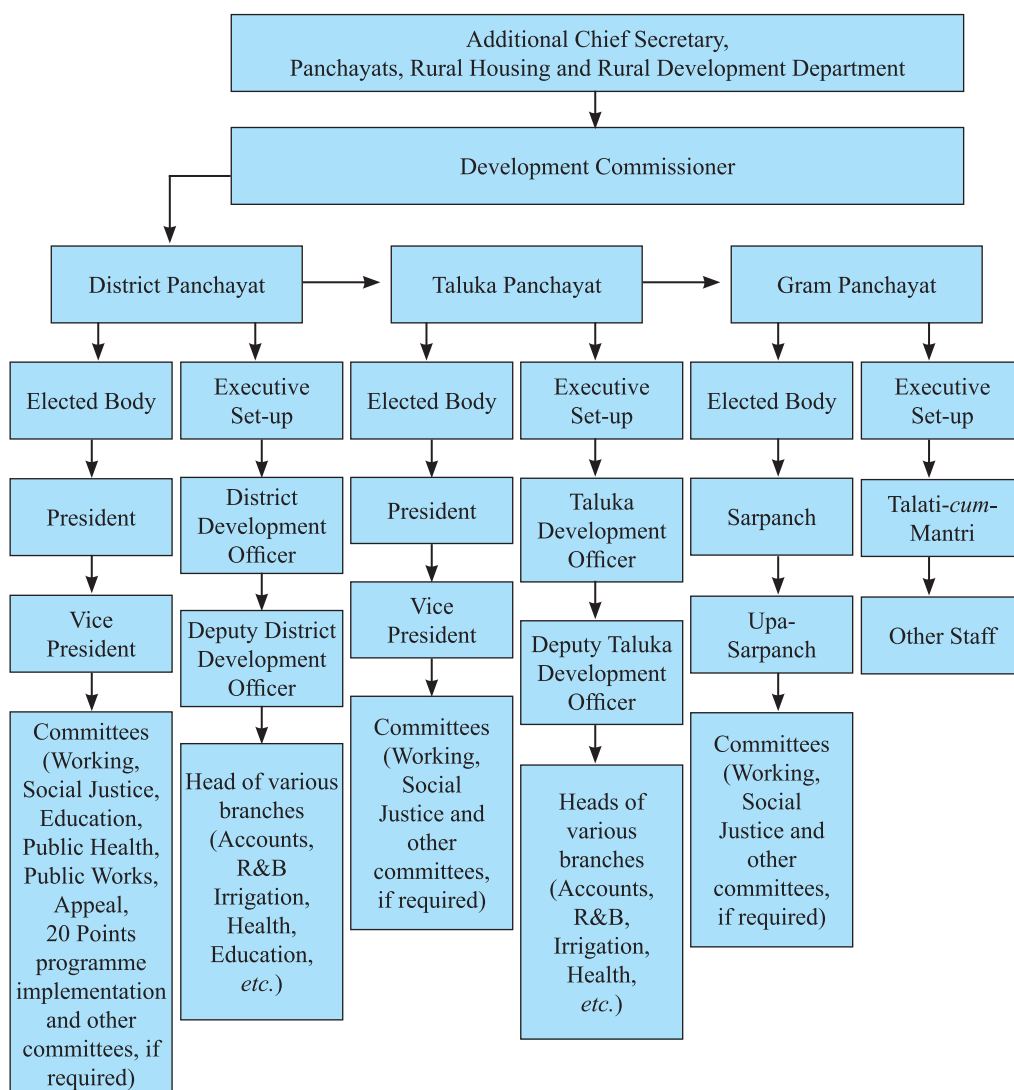
¹ District Panchayat (DP) at district level, Taluka Panchayat (TP) at intermediate level and Gram Panchayat (GP) at village level

² During the year 2012-13 (Q) at Current Prices

1.3 Organisational set-up of the PRIs

Additional Chief Secretary, Panchayats, Rural Housing and Rural Development Department (PRHRDD) exercises administrative control over the PRIs. The PRHRDD is responsible for framing policies pertaining to formulation and implementation of developmental schemes and administration. The PRHRDD exercises administrative control through office of the Development Commissioner, Gandhinagar. The President and Vice President of the DPs and TPs are elected from amongst the elected representatives. The Sarpanch of a GP is elected by the villages and the Upa-Sarpanch is elected from amongst the elected representatives. The GP Act envisages the functioning of the DPs, TPs and GPs through Standing Committees having elected representatives as members and chairperson. The number of Committees prescribed under the GP Act is seven, two and two for DPs, TPs and GPs respectively. In addition, the Panchayats may, with the prior approval of the State Government, constitute Committee(s) for specific purposes. The President in respect of DPs and TPs and Sarpanch of GPs are *ex-officio* Chairpersons of the Standing Committees.

The organisational set-up of the three tier system in Gujarat is shown below-



1.4 Powers and functions

The 73rd Amendment to the Constitution envisaged transfer of 29 functions listed in the 11th Schedule of the Constitution to the PRIs. Article 243 G of the Constitution had empowered the State Legislature to decide and confer powers and responsibilities to the PRIs. As per Section 180 (2) of the GP Act, the State Government may entrust 29 functions to the PRIs to prepare and implement schemes relating to economic development and social justice. State Government has, however, devolved (April 1993) 14 functions fully and five functions partially to PRIs (**Appendix-I**). Ten functions have not yet been devolved (November 2014). Thus, the spirit of the Constitutional Amendment for the PRIs to function as grassroots level LSGIs has not been fulfilled in substantial measure.

1.5 District Planning Committees

Article 243 ZD of the Constitution of India envisages that a District Planning Committee (DPC) shall be constituted at the district level in every State. DPC consists of such number of elected, nominated and permanent invitee members (not less than 15 and not more than 30) as determined by the Collector of the district. The Minister in-charge of the District is the Chairperson of the DPC. The tenure of DPC is five years and it is required to meet at least once in three months.

DPCs are constitutionally responsible to consolidate the plans prepared by LSGIs in the District and to prepare a Draft Development Plan (DDP) for the District as a whole for onward transmission to the Government. The DPC is to monitor the quantitative and qualitative progress, especially its physical and financial achievements in the implementation of the approved DDP. The State Government, while preparing the State plan, considers the proposal and priority included in the DDPs prepared for each District by the DPC.

The State Government had constituted (between January 2007 and November 2013) DPCs in 23 districts; in the three remaining districts of Anand, Porbandar and Rajkot, DPCs are yet to be constituted as of February 2015. Out of the 23 districts in which DPCs had been constituted (five districts had not provided³ information), only one meeting was held during 2013-14 in five districts⁴. Further, the DDPs had not been prepared in all 18 districts (which had provided information to Audit), which could have factored the aspirations and felt needs of the rural populace.

1.6 Financial Position of PRIs

1.6.1 Funds flow chart of PRIs

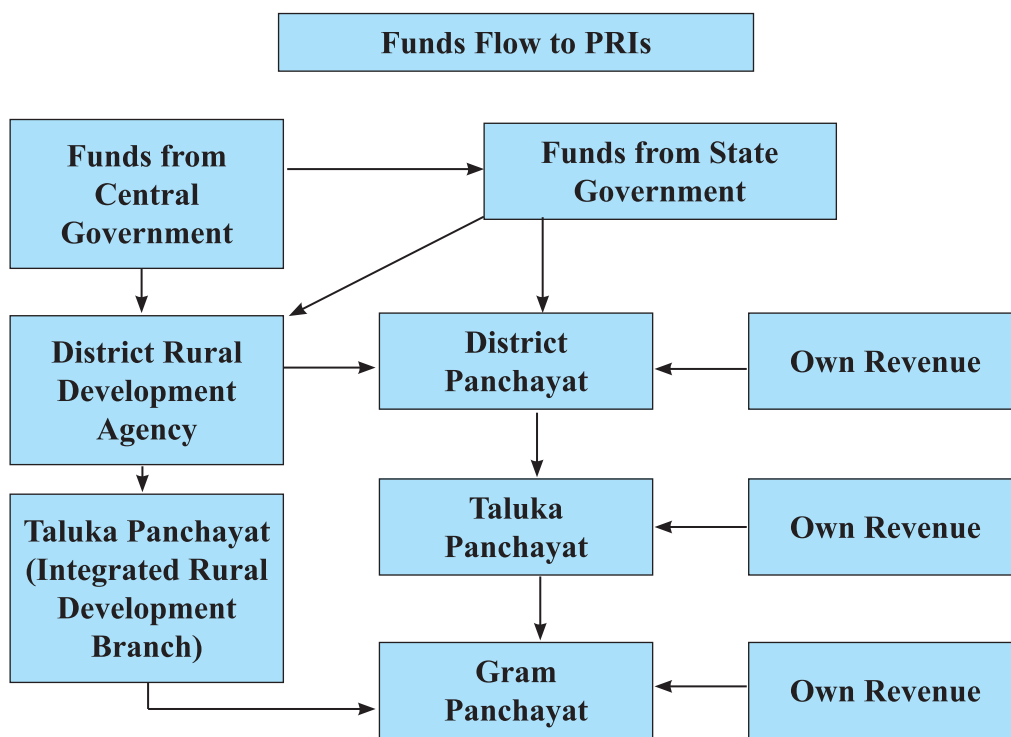
The funds of DPs and TPs are deposited in the District Treasury in Deposit Accounts, which are operated as non-interest bearing banking account. Centrally

³ Dahod, Gandhinagar, Kachchh, Tapi and Vadodara

⁴ Banaskantha, Bharuch, Narmada, Panchmahals and Sabarkantha

Sponsored Scheme (CSS) funds are kept in the banks/post offices in savings accounts according to guidelines of the respective schemes. The funds of the GPs are kept in savings accounts at the nearest post office or a scheduled bank.

The funds flows to PRIs is depicted in the chart below -



1.6.2 Financial position of PRIs

In addition to own source of tax and non tax revenue *e.g.* fair tax⁵, building tax, fee, rent from buildings and water reservoirs *etc.* and capital receipts from sale of land, PRIs receive funds from State Government and Government of India (GoI) in the form of grants-in-aid/loans for general administration, implementation of development schemes/works, creation of infrastructure in rural areas, *etc.* Besides, grants from State/Central Finance Commission are received.

1.6.3 Sources of Revenue

The receipt of PRIs from all sources during the last three years ending 2013-14 is shown in the **Table 2** below –

Table 2: Sources of revenue of PRIs

Revenue	₹ in crore)		
	2011-12	2012-13	2013-14
Government Grants	13,087.87	14,464.38	17,295.00
Own Revenue	266.61	268.66	273.88
Thirteenth Finance Commission Grants	299.02	322.53	420.05
Total	13,653.50	15,055.57	17,988.93

(Source : Budget publications and information furnished by the PRHRDD)

⁵ Tax on melas held in the jurisdiction of PRIs

The table on prepage shows that there was complete dependence of PRIs on the Government for even carrying out their basic functions as their ‘own revenue’ was very low. This impacted their fiscal autonomy which is an important issue to be addressed for improving governance at the grassroots level.

1.6.4 Sectoral Receipts and Expenditure

The sectoral allocation of receipts and expenditure of PRIs during 2011-12 to 2013-14 is given in **Table 3** below -

Table 3: Sectoral receipts and expenditure of PRIs

		(₹ in crore)			
Description		General Services	Social Services	Economic Services	Total
2011-12	Budget provision	1,162.29	7,671.39	2,201.24	11,034.92
	Expenditure	921.51	7,523.21	2,510.92	10,955.64
2012-13	Budget provision	989.55	9,953.00	2,296.70	13,239.25
	Expenditure	1,420.93	9,643.13	2,708.40	13,772.46
2013-14	Budget provision	1,722.08	9,104.20	2,242.14	13,068.42
	Expenditure	2,004.77	11,448.71	3,841.51	17,294.99

(Source : VLC data and Budget publications)

The above table shows that percentage of expenditure to total expenditure increased from eight *per cent* to 12 *per cent* under general services and from 20 *per cent* to 22 *per cent* under economic services whereas it decreased from 70 *per cent* to 66 *per cent* under social services during the period 2011-14. However, the increase in social service expenditure in absolute terms indicates an increased investment made in education, which points towards a positive development in the society.

1.7 State Finance Commission

Article 243 I of the Constitution made it mandatory for the State Government to constitute a State Finance Commission (SFC) within one year from the enactment of 73rd Constitutional Amendment and thereafter on expiry of every five years to review the financial condition of the PRIs and to make recommendations to the Governor for devolution of funds on the following aspects -

- the distribution of net proceeds of taxes, duties and fees between the State and the PRIs;
- taxes, duties, fees and tolls to be assigned and appropriated by PRIs;
- release of grants-in-aid to the PRIs from Consolidated Fund of the State; and
- measures needed to improve the financial condition of the PRIs.

1.7.1 Delayed/Non-Constitution of State Finance Commission

As the 73rd Constitutional Amendment came into effect on 20 April 1993, the constitution of the first SFC was due by 19 April 1994. Status of constitution of Finance Commissions by the State Government is given in **Table 4** below –

Table 4 : Constitution of State Finance Commission

Finance Commission	Due Date for Constitution SFC	Actual Date of Constitution	Delay in constitution	Month of submission of reports by SFC	Date of placement in Assembly
1 st FC	19 April 1994	15 September 1994	05 Months	October 1997	28 August 2001
2 nd FC	19 April 1999	19 November 2003	55 Months	November 2006	30 March 2011
3 rd FC	19 April 2004	02 February 2011	81 Months	December, 2013	Yet to be placed
4 th FC	19 April 2009	Not constituted	--	NA	NA
5 th FC	19 April 2014	Not constituted	--	NA	NA

(Source: Information received from PRHRDD)

The above table shows that the mandatory Constitutional provision in respect of timely constitution of the SFCs was not adhered to by the State Government. The 3rd SFC had submitted their report in December 2013; however, the Action Taken Report (ATR) on the SFC report from the State Government departments were awaited for placement of the report and ATR before the State Legislature. Delayed/non-constitution of the Commission resulted in non-availability of guiding principles for distributing State's financial resources among PRIs/ULBs, determination of taxes, duties, tolls and fees which are to be assigned to or appropriated by the Panchayats or the Municipalities.

1.8 Twelfth Finance Commission Grants

On the recommendation of Twelfth Finance Commission (TwFC), GoI released ₹ 931.00 crore to the State Government during the period 2005-10. State Government released the funds to the PRIs during the same period. Of this amount, PRIs spent ₹ 264.52 crore on Water Supply and Sanitation, ₹ 264.52 crore on Solid Waste Management, ₹ 42.80 crore on Database on Finances and ₹ 352.71 crore on 'Other Works' leaving an unspent balance of ₹ 6.45 crore (GoI share) as on March 2010. The State Government granted permission (June 2011) to PRIs to spend this unspent balance for the works recommended by TwFC.

However, it was observed that out of the unspent balance of ₹ 6.45 crore, the PRIs spent ₹ 1.50 crore on Water Supply, ₹ 1.23 crore on Sanitation and Drainage and ₹ 2.11 crore on other works. An unspent balance of ₹ 1.61 crore was still lying with them as on December 2014 though more than three years had elapsed from the date of grant of permission.

1.9 Thirteenth Finance Commission

The Thirteenth Finance Commission (ThFC) grants are divided into two components – General Basic Grant (GBG) and General Performance Grant (GPG). The GBG can be accessed by all States as per criteria laid down by the

Commission. But GPG can be accessed only by those States which comply with conditions stipulated by the ThFC, failing which the GPG would be forfeited. The forfeited grant would be distributed as follows -

- 50 per cent of amount forfeited by the PRIs to be distributed among all States irrespective of their compliance with the condition; and
- remaining 50 per cent to be distributed among the States which have complied with the conditions.

The State Government for the period 2010-15 is eligible to get central grant of ₹ 2,455.69 crore for PRIs, of which ₹ 1,597.54 crore was earmarked for GBG and ₹ 858.15 crore for GPG. Accordingly, State Government received GBG of ₹ 1,208.52 crore during the period 2010-14. Audit observed that as against ₹ 1,208.52 crore received, expenditure of ₹ 905.98 crore (October 2014) was incurred leaving unspent balance of ₹ 302.54 crore.

Audit further observed that GPG of ₹ 93.38 crore⁶ (2011-12), ₹ 216.48 crore⁷ (2012-13) and ₹ 252.74 crore⁸ (2013-14) allocated by GoI for the State was forfeited due to non-appointment of an independent Ombudsman to deal with the complaints of corruption and maladministration against the functionaries of local bodies as stipulated by the ThFC. In accordance with the orders of the ThFC, the State Government received only ₹ 13.52 crore (2011-12) and ₹ 49.99 crore (2013-14) as GPG from the forfeited grant. This resulted in loss of central assistance of ₹ 499.09 crore to the State Government.

1.10 Formats of Accounts

State Government decided (September 2004) to accept the Model Accounting System (MAS) prescribed by the Comptroller and Auditor General of India (CAG) which provides for four-tier classification of accounts viz. major head, minor head, sub head and object head. Further, instructions were issued (March 2011) by the State Government for maintaining accounts as per double entry accrual accounting system in Gujarat Rural Accounting Management (GRAM) software along with eight formats prescribed in MAS in addition to the requirement of respective Financial Rules of PRIs. However, Audit observed that the formats have not been operationalised and PRIs continued with their existing accounting formats prescribed under the Gujarat Taluka and District Panchayats Financial Accounts and Budget Rules, 1963.

Further, Audit observed that web based software (PRIASoft) developed by the GoI for maintenance of accounts of PRIs had not been adopted by the State Government.

Development Commissioner, PRHRDD stated (December 2014) that the eight formats as prescribed in MAS has been adopted by DPs and TPs from the year 2012-13. However, on pilot verification of implementation of GRAM software and its integration with PRIASoft at one DP (Sabarkantha) and two TPs (Khedbrahma and Prantij), Audit observed that out of the eight formats, one⁹

⁶ ₹ 86.14 crore (GPG) + ₹ 7.24 crore Special area performance grant

⁷ ₹ 202.06 crore (GPG) + ₹ 14.42 crore Special area performance grant

⁸ ₹ 238.32 crore (GPG) + ₹ 14.42 crore Special area performance grant

⁹ Format-IV

format was not provided in the system though a link was provided in the GRAM software; no reports were generated in five¹⁰ formats and two¹¹ formats were partially implemented as they generated only annual data instead of month-wise information. GRAM software had facilities for keeping accounts in double entry accounting system. Further, the annual accounts maintained by the PRIs were on cash basis instead of double entry accrual based accounting system.

As regards implementation of PRIASoft, it was stated that Gandhinagar district had been selected as pilot district to implement PRIASoft and is under process.

1.11 Audit arrangement and coverage

Examiner Local Fund Audit (ELFA) is the primary auditor of the accounts of local bodies under the provisions of the Gujarat Local Fund Audit (GLFA) Act, 1963. Apart from local bodies, other local funds such as those of Universities and other funds/local bodies are also audited by ELFA. The ELFA Department under State Finance Department is headed by Examiner and has District offices in all the Districts headed by Assistant Examiners.

State Government by a resolution (May 2005) entrusted the Technical Guidance and Supervision (TGS) over the audit of PRIs to Comptroller and Auditor General of India (CAG) under Section 20(1) of CAG's (DPC) Act¹², 1971. The provision of laying of Audit Report of ELFA alongwith the Report of CAG before the State Legislature was made by amending (May 2011) the Gujarat Panchayats Act, 1993.

1.11.1 Status of audit of PRIs by Examiner Local Fund Audit

The status of audit conducted by ELFA upto October 2014 is as shown in **Table 5** below -

Table 5 : Status of audit by ELFA

PRIs	Number of Auditable entities	Entities audited and period of accounts covered	Entities yet to be audited and period of accounts to be covered
DPs	26	26 (2012-13)	1 (2011-12)
TPs	223	9 (2011-12) 209 (2012-13)	214 (2011-12) and 14 (2012-13)
GPs	13,733 ¹³	12,608 (2010-11) 850 (2011-12)	1,125 (2010-11) and 12,883 (from 2011-12 onwards)

(Source : Information furnished by ELFA)

¹⁰ Format-II, Format-V, Format-VI, Format-VII and Format-VIII

¹¹ Format-I and Format-III

¹² Save as otherwise provided in section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority: Provided that no such request shall be made except after consultation with the CAG.

¹³ As per Table 1 under paragraph 1.2 of the Report, the numbers of GPs are 13,883 whereas the GPs auditable was only 13,733. The reason for the difference was non-updation of ELFA records

The table on prepage shows that Audit of 1,125 and 12,883 GPs by ELFA was in arrears from 2010-11 and 2011-12 onwards respectively and for TPs, the arrears were from 2011-12 onwards.

The Audit report of PRIs by ELFA for 2010-11 was placed (July 2014) before Legislature and report for the year 2011-12 has been finalised and likely to be placed in current session (March 2015).

1.11.2 Compliance to Inspection Reports

1.11.2.1 Inspection Reports of Examiner Local Fund Audit

Gujarat Local Fund Audit (GLFA) Act 1963, provides that ELFA should conduct audit of PRIs and after the completion of the audit, not later than three months thereafter, prepare a report on the accounts audited and examined and shall send such report to the local authority concerned and copies thereof to such officers and bodies as the State Government may direct. The Examiner shall include in this report a statement of (i) every payment which appears to him to be contrary to law; (ii) the amount of any deficiency or loss which appears to have been caused by the gross negligence or misconduct of any person; (iii) the amount of any sum received which ought to have been but is not brought into account by any person; and (iv) any other material impropriety or irregularity which he may observe in the accounts. The local authority shall within four months of receipt of the report, send to the Examiner intimation of his having remedied the defects or irregularities if any pointed out in the report. The Act empowers the Examiner to recommend and give opinion to the Commissioner to surcharge or charge the person responsible for such defects or irregularities.

Information provided by ELFA showed that as on October 2014, 19,94,858 paragraphs of the report issued to the PRIs by ELFA were pending for compliance. Age-wise pendency of paragraphs is given in **Table 6** below -

Table 6 : Pendency of paragraphs of ELFA

PRIs	Outstanding paragraphs pertaining to the period up to 2002-03	Outstanding paragraphs pertaining to the period 2003-07	Outstanding paragraphs pertaining to the period 2007-14	Total outstanding paragraphs
DPs	27,765	8,277	8,358	44,400
TPs	75,274	30,006	31,328	1,36,608
GPs	9,26,642	2,61,609	6,25,599	18,13,850
Total	10,29,681	2,99,892	6,65,285	19,94,858

(Source : Information furnished by ELFA)

The above table shows that out of 19,94,858 outstanding paragraphs, 10,29,681 (52 per cent) paragraphs were outstanding for more than ten years due to non-compliance by PRIs. This indicated lack of prompt response on the part of officials of PRIs. The ELFA further reported that no cases of defects or irregularities liable for surcharge or charge had been reported to the Commissioner till date (October 2014). This indicated the ineffectiveness of ELFA's Audit that no cases were considered liable to be surcharged/charged on the responsible officials.

1.11.2.2 Outstanding paragraphs of Inspection Reports of Accountant General

The paragraphs outstanding as of December 2014 for want of compliance from PRIs were 15,741 paragraphs (of 3,082 Inspection Reports). The status of financial year-wise outstanding paragraphs is shown in **Table 7** below –

Table 7 : Pendency of paragraphs of Accountant General

	Up to 2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Inspection Reports	1,555	255	120	87	526	307	151	81	3,082
Paras	6,370	1,159	642	638	3,481	2,241	992	218	15,741
Money value (₹ in crore)	37.47	1.92	2.44	0.39	9.68	6.46	1.19	0.74	60.29

The position of accumulated outstanding paragraphs and Inspection Reports with increasing money value indicated lack of efforts by concerned authorities in furnishing compliance of these paragraphs.

1.12 Response of departments to the audit paragraphs

The Audit observations for the draft report for the year 2013-14 were forwarded to the Principal Secretaries of the concerned administrative departments between August 2014 and February 2015 with a request to send their responses within six weeks. The replies to performance audit report, compliance paragraph and an individual paragraph featured in this Report are still awaited. Entry and exit conferences were also held with the concerned departments on the audit findings and the replies/views expressed have been duly considered while finalising this report.

1.13 Conclusion

A review of finances of PRIs revealed that the spirit of the Constitutional Amendment for the PRIs to function as LSGIs was not fulfilled substantially as the State Government had not yet devolved 10 functions out of 29 functions to the PRIs as envisaged in the 11th Schedule of the Constitution. Though, the DPCs were constituted in 23 districts, meetings of DPC were held in only five districts. Prescribed periodicity for constitution of SFCs was not maintained and the report of the 3rd SFC submitted in December 2013 was yet to be placed before the legislature due to pending ATRs on the report from the State Government Departments. Amounts of ₹ 1.61 crore of TwFC and ₹ 302.54 crore of ThFC were lying unspent. Formats of Model Accounting System (MAS) prescribed by CAG have not been operationalised as yet. The huge number of Audit paragraphs of the CAG and ELFA indicated weak internal control systems in PRIs. Efforts must be undertaken to clear these old outstanding audit observations.