

Chapter 1

An Overview of the Functioning, Accountability Mechanism and Financial Reporting

1.1 Introduction

The Seventy Third Constitutional Amendment Act (1992) paved the way for decentralisation of powers and devolution of more functions and funds to *Panchayati Raj* Institutions (PRIs) for enabling them to function as institutions of self-governance. Consequently, more diversified responsibilities were devolved through three-tier structures namely, *Gram Panchayat* (GP) at the village level, *Kshetra Panchayat* (KP) at the block level (Intermediate level) and *Zila Panchayat* (ZP) at the district level. To incorporate the provisions of the Seventy Third Constitutional Amendment, a three tier *Panchayati Raj* System was established through amendment (1994) in the Uttar Pradesh *Panchayat Raj Act* (UP PR Act), 1994 and UP *Kshetra Panchayat* and *Zila Panchayat Adhiniyam* (UP KP & ZP Act), 1961 and Rules framed thereunder.

Accordingly, the elected bodies at each level of *Panchayati Raj* Institutions (PRIs) were established with regular elections of *Panchayats* in every five years.

1.1.1 State profile

Uttar Pradesh is the fifth largest State in the country in terms of size and spans with an area of 2.41 lakh square Kilometer. There are 60,058 PRIs in the State, governed by elected members of the boards with normally five years tenure. The last election to these PRIs was held in 2015. The profile of PRIs compared to national value is given in **Table 1**.

Table 1: Important statistics of the State

Sl. No.	Indicator	Unit	State value	National value
1.	Population	Crore	19.98	121.06
2.	Population density	No./Km ²	829	382
3.	Rural population	Crore	15.53	83.35
4.	Number of PRIs	Number	60,058	2,47,577
5.	Number of ZPs	Number	75	598
6.	Number of KPs	Number	821	6,391
7.	Number of GPs	Number	59,162	2,40,588
8.	Gender ratio (rural)	Females <i>per</i> 1000 males	918	949
9.	Literacy (rural)	<i>Per cent</i>	65.46	67.77

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

1.2 Organisational set up of *Panchayati Raj* Institutions

Social sector programmes/schemes of rural areas are implemented by PRIs, parallel bodies and line departments. At Government level, Additional Chief Secretary, *Panchayati Raj* assisted by Director, *Panchayati Raj* was responsible for overall monitoring of release and utilisation of grants. *Apar Mukhya Adhikari* (AMA) at *Zila Panchayat* (ZP) level, Block Development

Officers at *Kshetra Panchayat* (KP) level and *Gram Panchayat/Vikas Adhikari* at *Gram Panchayat* (GP) level were responsible for economical and effective utilisation of grants. Further, *Zila Panchayat* Monitoring Cell (ZPMC) Lucknow and *District Panchayat Raj* Officers (DPROs) were responsible for monitoring the progress of the expenditure incurred on programmes executed by ZPs and KPs/GPs respectively. Apart from the above, High Level Monitoring Committee (HLMC) headed by the Chief Secretary, Government of Uttar Pradesh (GoUP) was also responsible for ensuring adherence to the specific conditions of grants provided to PRIs. The Organogram of PRIs at the Government and elected representative of each level is given in **Appendix 1.1**.

1.3 Functioning of *Panchayati Raj* Institutions

1.3.1 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) for enabling them to function as institutions of self-governance. Accordingly, the 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 of UP KP & ZP Act, 1961. Out of 29 (**Appendix 1.2**), only 16 functions pertaining to PRIs mentioned in the Eleventh Schedule of the Constitution have been devolved to PRIs as of 14 October 2016 (**Appendix 1.3**). The remaining functions were yet to be devolved to the PRIs. Devolution of Funds and Functionaries to PRIs are discussed in succeeding paragraphs.

1.4 Formation of various Committees

1.4.1 Standing Committees

For proper functioning of the three tiers of PRIs, GoUP ordered in July 1999 for constitution of six standing committees in each tier of PRIs. Brief introduction on the working of various standing committees involved in financial matters and implementation of schemes is given in **Table 2**.

Table 2: Details of Standing Committees

Tier of PRIs	Head of the Standing Committees	Names, roles and responsibilities of the Standing Committees
<i>Zila Panchayat</i>	<i>Adhyaksh</i>	<p>(i) <i>Niyojan Evam Vikas Samiti</i>: is assigned the task to prepare a plan for GPs and to implement the Agriculture, Animal Husbandry and Poverty Alleviation schemes.</p> <p>(ii) <i>Shiksha Samiti</i>: is assigned the task regarding Primary Education, Upper Primary Education, Informal Education and Literacy Programme.</p> <p>(iii) <i>Nirman Karya Samiti</i>: is entrusted with the task to have effective control and quality assurance in all the temporary and permanent constructions and</p>

		<p>maintenance works.</p> <p>(iv) Swasthya Evam Kalyan Samiti: is responsible for implementation of Medical, Health and Family Welfare schemes.</p> <p>(v) Prashasanik Samiti: is responsible for all the subjects of personnel engaged under the control of GPs and works related to fair price shops.</p> <p>(vi) Jal Prabandhan Samiti: is responsible for operation and maintenance of tube wells and operation of schemes regarding drinking water.</p>
<i>Kshetra Panchayat</i>	<i>Block Pramukh</i>	<p>(i) Niyojan Evam Vikas Samiti: is assigned the task to prepare a plan for GPs and to implement the Agriculture, Animal Husbandry and Poverty Alleviation schemes.</p> <p>(ii) Shiksha Samiti: is assigned the task regarding Primary Education, Upper Primary Education, Informal Education and Literacy Programme.</p> <p>(iii) Nirman Karya Samiti: is entrusted with the task to have effective control and quality assurance in all the temporary and permanent constructions and maintenance works.</p> <p>(iv) Swasthya Evam Kalyan Samiti: is responsible for implementation of Medical, Health and Family Welfare schemes.</p> <p>(v) Prashasanik Samiti: is responsible for all the subjects of personnel engaged under the control of GPs and works related to fair price shops.</p> <p>(vi) Jal Prabandhan Samiti: is responsible for operation and maintenance of tube wells and operation of schemes regarding drinking water.</p>
<i>GramPanchayat</i>	<i>Gram Pradhan</i>	<p>(i) Niyojan Evam Vikas Samiti: is responsible for preparing development plan for GP and implementation of Agriculture, Animal Husbandry and Poverty Alleviation schemes.</p> <p>(ii) Shiksha Samiti: is responsible for implementation of schemes related to primary education, adult & informal education and literacy programme.</p> <p>(iii) Nirman Karya Samiti: is responsible for all construction and maintenance works and quality thereof.</p> <p>(iv) Swasthya Evam Kalyan Samiti: is enshrined with the task of Medical, Health, Family Planning and Social Welfare Schemes especially for implementation of Women and Child Welfare Schemes.</p> <p>(v) Prashasanik Samiti: deals with matters related to establishment of employees and fair price shop of <i>Gram Panchayat</i>.</p> <p>(vi) Jal Prabandhan Samiti: deals with operation and maintenance of Drinking Water Scheme and Tube wells.</p>

(Source: Director, Panchayati Raj, Lucknow)

The functioning status of these committees at PRI level was not made available to audit by the Government.

1.4.2 District Planning Committee

The Constitution (Seventy Fourth Constitutional Amendment) Act, 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". Although the Government enacted the Uttar Pradesh District Planning Committee Act, 1999 (July 1999), DPCs in the State were constituted only in April 2008.

It was noticed that DPCs were constituted in all the districts. The audit observation on planning aspects of PRIs is discussed in paragraph 2.7.2.1 of Chapter 2 of this Report.

1.5 Audit arrangement

1.5.1 Primary Auditor

The Chief Audit Officer, Co-operative Societies and *Panchayats* (CAO) is the primary Auditor, empowered to conduct the audit of all the three tiers of PRIs. The position of audit conducted during the period 2015-16 is given in **Table 3**.

Table 3: Position of units planned, audited and shortfall

Name of PRIs	Number of units planned	Number of units audited	Shortfall in number of units (per cent)
ZPs	73	46	27 (37)
KPs	821	93	728 (89)
GPs	51,834	34,367	17,467 (34)

(Source: CAO, Co-operative Societies and *Panchayats*, Lucknow).

As may be seen from **Table 3**, a large number of PRIs due for audit during the year remained unaudited, ZPs 37 per cent, KPs 89 per cent and GPs 34 per cent.

On being pointed out, CAO stated (October 2016) that records were not being produced by PRIs, which was the main reason for heavy shortfall in audit. The State Government should take a serious note of this and put in place an effective system to ensure that PRIs maintain proper records and produce them to the CAO.

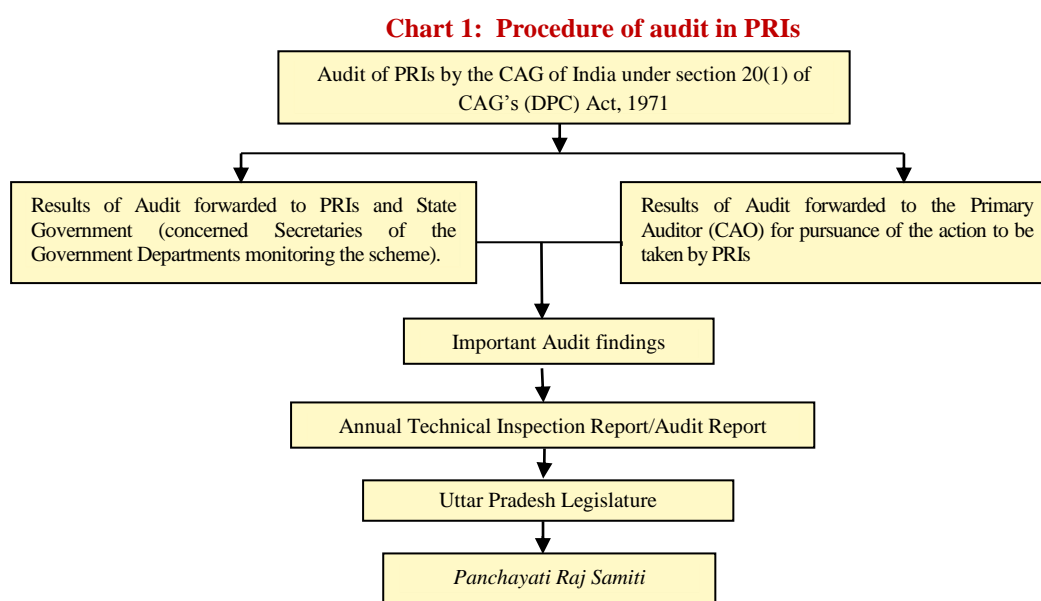
Rule 186 of the UP PR Rules, 1947 provides for preparation of Annual Audit Reports. The annual Audit Report for the year 2010-11 had been prepared and submitted to State Legislature. However, annual Audit Reports from 2011-16 were yet to be prepared and submitted to the Legislature.

1.5.2 Audit by the Comptroller and Auditor General of India

The entrustment of TGS audit of PRIs and ULBs was continued in the State as per the recommendation of Thirteenth Finance Commission. It provided for an additional component of Performance Grant which was linked to the condition of laying of the CAG's Annual Technical Inspection Report (ATIR) for Local bodies in the State Legislature. As per the entrustment letter (2011), the CAG

or his representative will have the right to report to State Legislature the result of audit at his discretion.

The Audit of accounts of PRIs is conducted by the CAG of India under section 20(1) of CAG's (DPC) Act, 1971. TGS to the audit of PRIs of CAO is given to the CAG under Section 20 (1) of CAG's (DPC) Act, 1971. The result of audit was sent to State Government, Director, PRI and CAO, for pursuance of action to be taken by PRIs. Procedure of audit in PRIs is depicted in **Chart 1**.



Rule 186 of Uttar Pradesh *Panchayat Raj* (Seventeenth Amendment) Rules, 2011 and Rule 176 of the Uttar Pradesh *Zila Panchayat* and *Kshetra Panchayat* (Budget and General Accounting) (Sixth amendment) Rules, 2011 laid down the provisions for tabling the Reports of the Comptroller and Auditor General of India (CAG) before the State Legislature. Consequently, the ATIRs (2005-11) of *Panchayati Raj* Institutions (PRIs) have been laid before the Legislature. In pursuance to this, the State Government constituted *Panchayati Raj Samiti* in March 2014 to discuss the reports in the Legislature of Uttar Pradesh. However, the ATIRs/Audit Report sent to the Government for the years ended March 2013, March 2014 and March 2015 were not placed before the Legislature and therefore not discussed in the *Panchayati Raj Samiti*.

1.6 Response to Audit Observations

The audit observations were communicated to the Heads of the Offices, Director, *Panchayati Raj*, CAO and the State Government. Details of outstanding audit observations with money value carried out during the course of Compliance Audit to check whether the money was spent as per rules and procedures and the purposes envisaged, are given in **Table 4**.

Table 4: Details of outstanding audit paragraphs as on 31 March 2016

Year	No. of IRs	No. of paragraphs in IRs	Amount involved (₹ in crore)	No. of paragraphs settled	No. of paragraphs outstanding	Money value of paragraphs outstanding (₹ in crore)
2011-12	840	2,033	242.37	-	2,033	242.37
2012-13	197	482	223.16	-	482	223.16
2013-14	1,561	3,310	1,073.44	-	3,310	1,073.44
2014-15	802	2,203	816.81	-	2,203	816.81
2015-16	544	1,739	2,773.51	-	1,739	2,773.51
Total	3,944	9,767	5,129.29	-	9,767	5,129.29

(Source: Register of Audit Inspection Reports)

It may be seen from **Table 4** that 9,767 paragraphs with money value of ₹ 5,129.29 crore were reported to the Government during 2011-16. No audit paragraphs were settled as the Government was not responsive to audit observations.

CAO also did not pursue the action taken by the PRIs in compliance to the audit paragraphs regularly communicated to it.

On being pointed out, CAO stated (June 2016) that review of the cases pending for settlement was not undertaken as the compliance report from the administrative departments was not received. Consequently, the audit observations during last five years were not settled which indicated lack of internal control and monitoring and disregard of financial rules, regulations and norms of financial propriety.

Accountability Mechanism and Financial Reporting

Accountability Mechanism

1.7 Ombudsman

As per Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) guidelines, in order to ensure transparency and responsibility, the State Government shall appoint Ombudsman and establish an office of Ombudsman to redress the complaints under MGNREGS. The State Government replied (August 2016) that 20 Ombudsmen for the various districts were appointed in the State in February 2014. Data of cases registered, disposal and outstanding were not made available to audit by the Government.

1.8 Social Audit

The Government of India, in consultation with the Comptroller and Auditor General of India framed a set of rules and regulations titled the “Audit of Schemes Rules, 2011”. Subsequently, GoUP constituted (August 2012) Social Audit Unit (SAU) under Society Registration Act 1860 as an independent agency. The main objective of Social Audit Unit was to build capacities of *Gram Sabha* for conducting Social Audit, to prepare Social Audit reporting formats, to create awareness amongst the labourers about their rights and entitlements and to facilitate verification of records and works sites.

The details of functioning of SAU is given in **Appendix 1.4** and coverage of Social Audit are given in **Table 5**

Table 5: Year wise planned and audited units

Year	Number of GPs	Number of GPs Planned	Number of GPs Audited	Shortfall against Planned (<i>per cent</i>)
2013-14	51,914	13,192	11,412	1,780 (13)
2014-15	59,162	25,748	20,844	4,904 (19)
2015-16	59,162	13,416	11,714	1,702 (13)

(Source: Director, Social Audit)

It may be seen from **Table 5** that during 2013-16, shortfall against units planned annually for conducting social audit in GPs ranged between 13 to 19 *per cent*.

On being pointed out, Director Social Audit stated (June 2016) that due to by-election and local reason, audit was not conducted and units were in arrears.

1.9 Lok Ayukta

GoUP passed an Act in 1975 for appointment of the Lok Ayukta and Deputy Lok Ayukta in the State for effective control of financial matters on the public servants. Accordingly, Lok Ayukta was appointed in the State since 1977 for combating corruption and mal-administration and taking measures for strengthening public institutions. Every minister except Chief Minister, every officer or public servant of State Government, *Pramukh* of KP, *Adhayaksh* of ZP are in the ambit of Lok Ayukta for initiating enquiry. Any citizen is competent to file a complaint to Lok Ayukta regarding mal-administration, misuse of power, corruption, financial irregularities *etc.* committed by State Public Servant.

Graphical structure of the office of Lok Ayukta of the State as given in **Appendix 1.5** and details of cases registered and settled from January 2011 to December 2015 are given in **Table 6**.

Table 6: Details of cases registered and disposed-off in Lok Ayukta

(Cases in number)

Year	Cases pending at the beginning of year	Cases registered during the year	Total	Cases disposed-off	Cases pending at the end of year
2011	360	651	1,011	480	531
2012	531	783	1,314	506	808
2013	808	309	1,117	523	594
2014	594	631	1,225	385	840
2015	840	273	1,113	347	766

(Source: Lok Ayukta, UP, Lucknow)

1.10 Submission of Utilisation Certificate

PRIs in the State collected revenue through own sources and received grants from GoI and the State Government under the recommendations of Finance Commissions. Details of revenue collected, grants released and utilised as reported by Directorate of *Panchayati Raj* during 2011-16 are given in **Table 7**:

Table 7: Resources and their utilisation**(₹ in crore)**

Year	Central Finance Commission grants		State Finance Commission grants	
	Grants released	Grants utilised	Grants released	Grants utilised
2011-12	1,672.27	1,672.27	2,192.10	2,192.10
2012-13	2,376.64 ¹	2,376.64	2,477.33	2,477.33
2013-14	2,742.07	2,742.07	3,901.68	3,901.68
2014-15	2,121.81	2,121.81	4,390.18	4,390.18
2015-16	3,852.60 ²	3,852.60	4,070.65 ³	4,070.65
Total	12,765.39	12,765.39	17,031.94	17,031.94

(Source: Director, *Panchayati Raj* and Finance Department, GoUP)

As may be seen from the **Table 7**, the entire CFC/SFC grants were reported as having been utilised. However, audit scrutiny revealed that the entire funds were not utilised as reported and there were balance of funds available with the PRIs as discussed in succeeding paragraphs.

According to Rule 212 (5) of General Financial Rules, 2005, State Government was required to furnish Utilisation Certificate when central grants are given to it for expenditure through Local bodies. Subsequent instalments of grants were to be released after submission of the Utilisation Certificate.

Audit noticed that the test checked 202 PRIs (10 ZPs, 26 KPs and 166 GPs) received grants during 2011-16 even though they had large amount of unspent grants of previous years (**Appendix 2.3, 2.4 and 2.6**). As may be noticed from the appendices, the test checked PRIs had a balance of funds of ₹172.82 crore (GPs: ₹10.26 crore, KPs: ₹10.57 crore and ZPs: ₹151.99 crore) at the end of 2015-16 indicating release of subsequent instalments of the grants without ensuring receipt of full utilisation certificates and actual utilisation of grants. Utilisation certificates for SFC grants both at PRIs and Directorate of *Panchayati Raj* level were not made available to Audit.

Government in its reply stated that the utilisation certificates to the GoI were sent on the basis of information of utilisation received from DPROs. Reply is not acceptable as utilisation certificates for ensuring actual utilisation of grants was not submitted by any of the PRIs test checked.

1.11 Financial Reporting

1.11.1 Sources of Funds

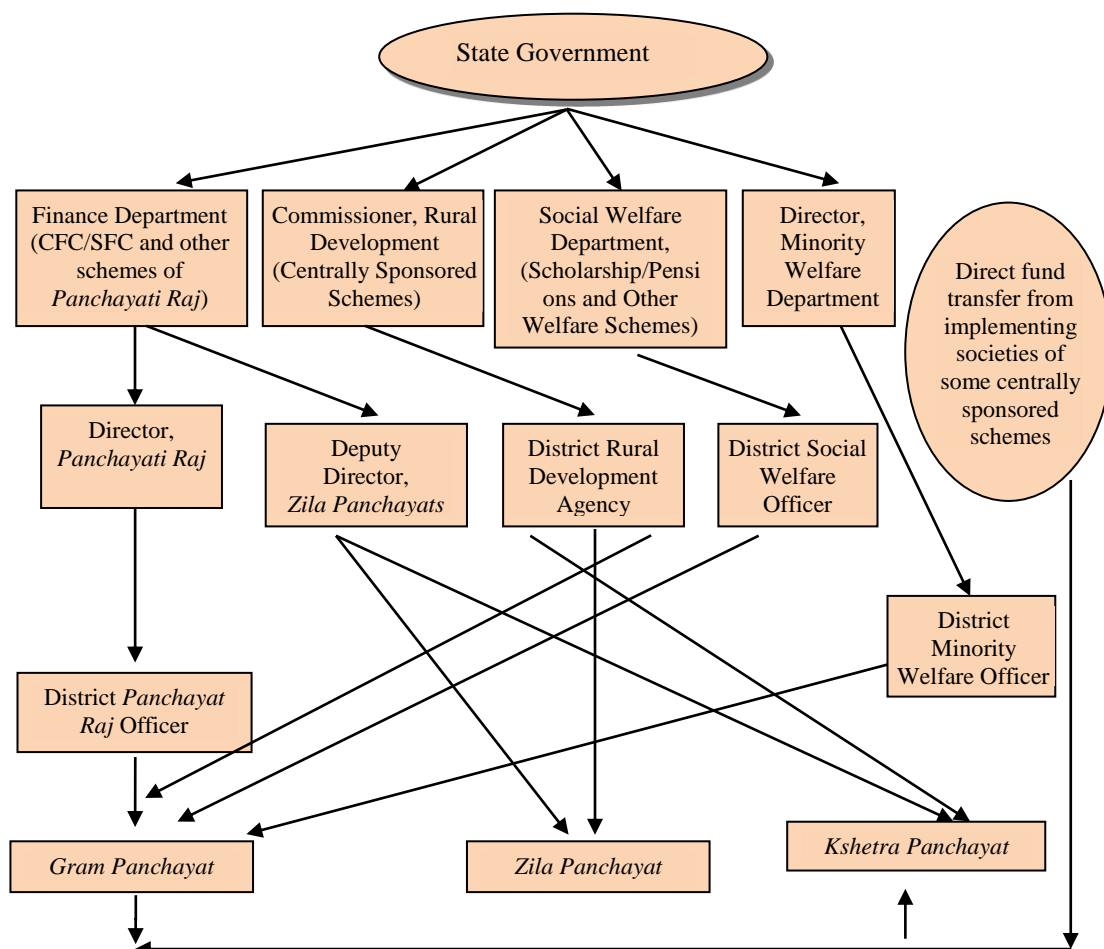
The resource base of PRIs consists of grants devolved from Government of India (GoI) under Central Finance Commission (CFC) grants, funds from Centrally Sponsored Schemes (CSS); grants devolved from GoUP under State Finance Commission (SFC) grants and resource generated through their own resources for carrying out maintenance and development works. The fund-wise source and its custody for each tier and the fund-flow arrangements in flagship schemes are given in **Chart 2** and **Table 8(a) & 8(b)**.

¹ In addition, an interest of ₹2.01 crore was released by State Government on account delay in release of grants.

² In addition, an interest of ₹1.64 crore was released by State Government on account delay in release of grant.

³ Interim as of June 2016.

Chart 2: Fund flow



(Source: Director, Panchayati Raj)

Table 8 (a): Fund-flow: Source and custody of funds in PRIs

Nature of funds	ZPs		KPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own Receipt	Users of the area	Zila Nidhi/Bank	Users of the area	Kshetra Nidhi/Bank	Users of the area	Gram Nidhi/Bank
State Finance Commission	State Government	Zila Nidhi/Bank	State Government	Kshetra Nidhi/Bank	State Government	Gram Nidhi/Bank
Central Finance Commission	GoI	Zila Nidhi/Bank	GoI	Kshetra Nidhi/Bank	GoI	Gram Nidhi/Bank
Centrally Sponsored Schemes	GoI	CSS Bank account	GoI	CSS Bank account	GoI	CSS Bank account
State Sponsored Schemes	State Government	SSS Bank account	State Government	SSS Bank account	State Government	SSS Bank account

(Source: Director, Panchayati Raj)

Table 8 (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 the Government of Uttar Pradesh (GoUP) transfer its 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 from it to district and sub-district level.

2.	Indira AawasYojana (IAY)	GoI transfers its share directly to DRDA through cheques. DRDA draws GoUP's share from district treasury and keeps both in a Bank Account. Project Director operates the Bank Account and is administrator of the fund. He transfers the fund to the beneficiaries account.
3.	Rural Drinking Water Supply Programme (RDWSP)	For Accelerated Rural Water Supply Programme, GoUP transfers funds to Uttar Pradesh Jal Nigam (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.
4.	Swachha Bharat Mission	GoI transfers its share directly in Bank accounts of District Water and Sanitation Mission set up in each District. 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.
5.	National Rural Livelihood Mission (NRLM)	GoI transfers its share to State Rural Livelihood Mission (SRLM) of GoUP. For this purpose SRLM office has a separate bank account. SRLM devolves the fund to the districts in accordance with district-wise allotments through Annual Action Plan.

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

1.11.1.1 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 115 of UP KP & ZP Act, 1961 prescribes preparation and passing of budget by KPs. Section 116 of the Act allowed drawal of funds by KPs up to the limit prescribed in passed budget. Likewise, Section 41 of the Panchayati Raj Act, 1947 and Rule 219 of UP Panchayat Raj Manual prescribe procedure for preparation and passing annual budget of GP. It was noticed in audit during 2015-16 that the annual budget in 26 KPs and 166 test checked GPs were not being prepared. Thus, receipts and flow of actual expenditure were not analysed and monitored by competent authority.

1.11.1.2 Resources of PRIs

PRIs' resources included tax & non-tax revenue and grants devolved by GoI and the State Government. Revenue generated by PRIs in the State through their own sources and grants received during 2011-16 are given in **Table 9**.

Table 9: Resources of PRIs' in the State

(₹ in crore)

Year	Resource generated by PRIs	Grants devolved by GoI	Grants devolved by State Government	Total resources
2011-12	127.08	1,672.27	2,192.10	3,991.45
2012-13	160.17	2,376.64 ⁴	2,477.33	5,014.14
2013-14	190.70	2,742.07	3,901.68	6,834.45
2014-15	193.65	2,121.81	4,390.18	6,705.64
2015-16	227.14	3,852.60 ⁵	4,070.65	8,150.39
Total	898.74	12,765.39	17,031.94	30,696.07

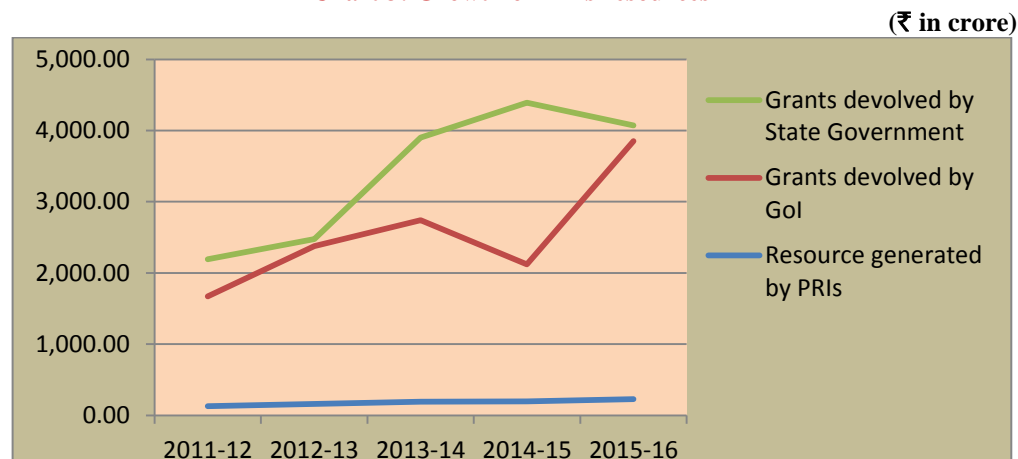
(Source: Zila Panchayat Monitoring Cell Lucknow and Directorate of Panchayati Raj Department)

⁴ In addition, an interest of ₹2.01 crore was released by State Government on account delay in release of grants.

⁵ In addition, an interest of ₹1.64 crore was released by State Government on account delay in release of grant.

Over the period of 2011-16, revenue generated by PRIs in the State through their own sources (₹898.74 crore) was just three *per cent* compared to the total resources ₹30,696.07 crore of PRIs. Growth of PRIs resources during 2011-16 is depicted in **Chart 3**.

Chart 3: Growth of PRIs resources



It may be seen from **Chart 3** that there are oscillating trend in CFC and SFC grants and receipt under own revenue of PRIs is almost negligible. This chart also shows that PRIs continue to remain largely dependent on the Central and State government grants and have failed in increasing the revenues from their own resources.

It is important to be mentioned that the figures under Central and State Finance Commission grants provided to Audit by the Directorate of *Panchayati Raj*, GoUP have substantial differences in the years 2011-12 to 2015-16 (**Appendix 1.6**) compared to the figures reported now by the Department of Finance, GoUP. This indicated poor monitoring and control of the Government over accounting of the funds devolved under CFC and SFC grants to PRIs.

Government should examine and carry out early reconciliation of these figures to ensure that there is no misappropriation and or diversion of grants of CFC and SFC.

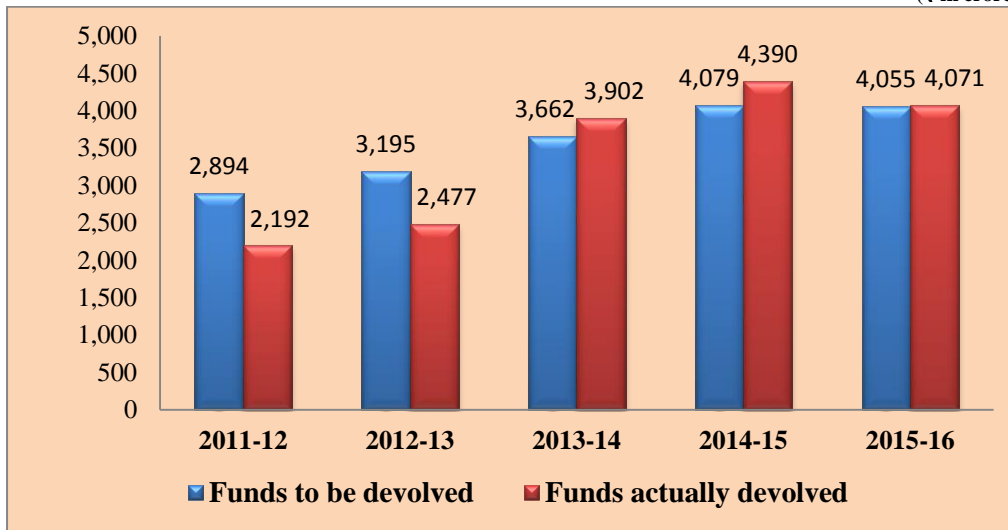
1.11.2 Recommendations of the State Finance Commission

Government of India (GoI) enacted the Constitutional (Seventy Third Amendment) Act, 1992 which provided for constitution of State Finance Commission (SFC) to devolve finances to *Panchayats* from the Consolidated Fund of the State (Article 243-I) and also to suggest measures for augmenting resources of the PRIs.

The Third SFC recommended (2008) devolution of to 5.5 *per cent* of the net proceeds of total tax revenue of the State. Fourth SFC recommended (2015) devolution of 6 *per cent* of Net revenue of State but GoUP accepted 5 *per cent* of net revenue. The devolution of funds and actual releases there against to PRIs by GoUP during 2011-16 are depicted in **Chart 4**.

Chart 4: Devolution of funds vis-à-vis net proceeds of total tax revenue

(₹ in crore)



(Source: Director, Panchayati Raj, UP, Lucknow)

It may be seen from **Chart 4** that there was short devolution of funds (₹ 1,420 crore) in 2011-13 and higher devolution of funds (₹ 567 crore) in 2013-16.

1.11.2.1 Lapse of SFC grants

Grants under the recommendation of Third SFC were to be released to PRIs by the State Government. During 2011-12, it used to release the grants through its treasuries. Concerned Department/Offices were to draw the instalment from treasuries on or before 31 March 2012 for releasing to PRIs.

Audit noticed that grants released to PRIs of different districts during 2011-12 were lapsed on account of not being drawn from treasuries by concerned DPROs/AMAs by 31 March 2012. Consequently, PRIs in the State suffered loss of resources of ₹ 332.68 crore in 2011-12.

It was stated by the Government that the grants during 2011-12 were transferred by Finance Department, and instructions are being issued to the concerned DPROs/AMAs to avoid delay in drawing grants.

1.11.3 Recommendations of the Central Finance Commission

The status of grants released and utilised under Central Finance Commission as reported by the Government is given in **Table 7** of this Chapter. Audit noticed that the quantum of grants released to PRIs doubled from ₹ 1,672.27 crore in 2011-12 to ₹ 3,852.60 crore in 2015-16. As discussed in succeeding paragraph, after release of the grants by GoI, the grants to PRIs' were transferred delayed by the State Government which caused avoidable payment of interest. Further, though the grants were transferred with substantial delay by the Government, it did not pay interest for the delay to the PRIs.

1.11.3.1 Payment of interest for delay in transfer of CFC grants

According to the guidelines issued (October 2015) by GoI, the State Government was to transfer grants to GPs within 15 days of their release by

GoI. In case of delay, the State Government was to transfer the instalment along with interest at the Bank rate of Reserve Bank of India paid from its own funds.

Audit noticed that the first instalment amounting to ₹1,931.30 crore of the grants of FC-XIV in 2015-16 released by GoI on 23 October 2015 was transferred to GPs after a delay of four days on 10 November 2015 and consequently GoUP made an interest payment of ₹1.64 crore on 30 March 2016.

Further, the second instalment of the grant of FC-XIV in 2015-16 amounting to ₹1,921.29 crore released by GoI on 31 March 2016 was transferred by the State Government timely on 12 April 2016 to the Director *Panchayati Raj* for onward transferring to GPs. But only ₹1,909.18 crore out of ₹1,921.29 crore was transferred to GPs with a delay of 19 days on 4 May 2016. The remaining grant of ₹12.11 crore was not transferred as of June 2016. It was observed that even the interest due ₹6.08 crore for the delayed transfer of grants was not paid (February 2017).

Government stated that the delay was on account of problem in opening bank accounts of newly created GPs. Reply is not acceptable as the funds were not transferred as stipulated by GoI and the Government had to incur avoidable additional expenditure on payment of interest.

1.11.4 Maintenance of Records

Financial rules, Uttar Pradesh *Kshetra Samiti and Zila Parishad* Works Rules, 1984 and Uttar Pradesh PR Act, 1947 prescribe maintenance of requisite records and documents in respect of works executed and financial transaction carried out by ZPs, KPs and GPs. Maintenance of basic records prescribed under rules was found inadequate in test checked ZPs, KPs and GPs, the details of which are given in paragraph 2.7.2.3 of Chapter 2 of this report.

1.11.5 Maintenance of Accounts/database and formats by *Panchayati Raj* Institutions

The Eleventh Finance Commission (EFC) recommended for exercising control and supervision over proper maintenance of accounts and their audit for all the three tiers of PRIs. Thirteenth Finance Commission also recommended that the State Government would be eligible to draw 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 also 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 2015. In GPs, only Annual Receipt and Payment Account and Consolidated Abstract Register were being generated as of September 2016.

Ministry of *Panchayati Raj* directed all States that a State Level Committee for strengthening of accounting system in the PRI, was to be framed. In compliance to the said order GoUP constituted⁶ a State Level Model Accounting system monitoring Committee to implement the smooth functioning of MAS/PRIASoft and settlement of its bottlenecks.

It was noticed that only one State Level Committee meeting was held on 02 June 2015 during 2014-16 and 100 *per cent* accounts were not closed in PRIs during 2013-15 and status of 2015-16 was not provided.

On being pointed out, Director, PR stated that necessary action will be taken for regular meeting of the committee (October 2016).

1.12 Conclusion

Large amount of grants under State Finance Commission, Central Finance Commission *etc.* were devolved to PRIs during 2011-16 whereas there was no significant increase in generation of own revenue during this period resulting in large dependency on the Government grant.

⁶ GO no- 2204 / 33-3-2014-235 / 2014 dated 16 September 2014.