

**PART - A**  
**PANCHAYAT RAJ**  
**INSTITUTIONS**



# **CHAPTER I**

**AN OVERVIEW OF THE FUNCTIONING,  
ACCOUNTABILITY MECHANISM AND  
FINANCIAL REPORTING ISSUES OF  
PANCHAYAT RAJ INSTITUTIONS**



## CHAPTER I

### AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES OF PANCHAYAT RAJ INSTITUTIONS

#### An Overview of the functioning of the Panchayat Raj Institutions in the State

##### 1.1 Introduction

The 73<sup>rd</sup> amendment to the Constitution gave constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, election, regular flow of funds through the Finance Commission etc. As a follow-up, the State Governments were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of local self-government.

Consequent upon the 73<sup>rd</sup> amendment of the Constitution, the State Legislature enacted the Tamil Nadu Panchayats Act, 1994. Under this Act, a three-tier system of PRIs viz., Village Panchayats (VPs) at the village level, Panchayat Unions or Block Panchayats (BPs) at the intermediary level and District Panchayats (DPs) at the district level was established.

The demographic and developmental status of the State is given in **Table 1.1** below:

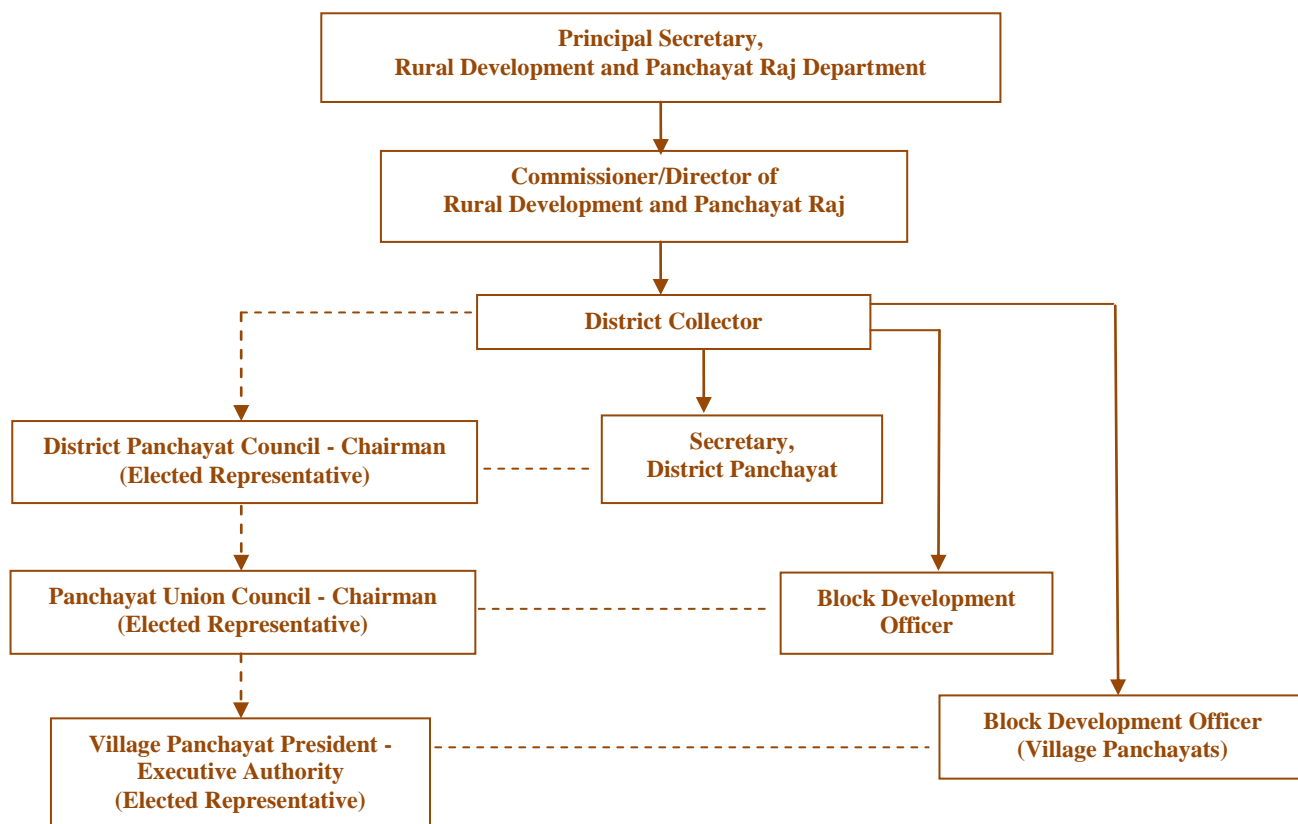
**Table 1.1: Important statistics of the State**

Population	7.21 crore
Population density	555 persons per Sq.Km.
Gender ratio	996 females per 1,000 males
Rural population	51.60 <i>per cent</i>
Literacy	80.09 <i>per cent</i>
Number of PRIs	12,940
- District Panchayats	31
- Block Panchayats	385
- Village Panchayats	12,524

(Source: Census of India 2011 and Policy Note of the Rural Development and Panchayat Raj Department for 2015-16)

## 1.2 Organisational set up of PRIs

The organisational structure of PRIs is given below:



## 1.3 Functioning of PRIs

Eleventh Schedule of the Constitution of India empowered the State Legislatures to devolve 29 functions to PRIs. Director of Rural Development and Panchayat Raj (DRDPR) stated (January 2016) that Government of Tamil Nadu (GoTN) delegated certain powers to the three tiers of Panchayats to supervise, assist and monitor the works, falling under the 29 subjects, implemented by various departments. This indicated that none of the functions had been delegated to PRIs.

## 1.4 Formation of various Committees

(i) As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994, out of 32 Districts in Tamil Nadu, GoTN constituted a District Planning Committee (DPC) in each of the 31 districts (except Chennai District) in Tamil Nadu. District Panchayat Chairperson is the Chairperson and District Collector is the Vice Chairperson of the Committee. Members of Parliament, Members of Legislative Assembly and representatives of Local Bodies are appointed as members subject to the norms and ceiling prescribed.

One of the functions of the DPC was to consolidate the plans prepared by Rural Local Bodies and Urban Local Bodies for preparation of consolidated district plan, which will facilitate the State Planning Commission in preparation of State Plan.

(ii) Section 3 of the Tamil Nadu Village Panchayats Act, 1994 stipulates that there shall be a Grama Sabha for every Village Panchayat consisting of persons registered in the electoral roll relating to the Panchayat Village, comprised within the area of the said Village Panchayat. Guidelines and procedures for the conduct of Grama Sabha are prescribed in The Tamil Nadu Grama Sabha (Procedure for convening and conducting of Meeting) Rules, 1998. The Government order ensures conducting of Grama Sabha meetings for a minimum of four times a year i.e., on 26th January, 1st May, 15th August and 2nd October.

## **1.5 Audit arrangement**

### **1.5.1 Primary Auditor**

Director of Local Fund Audit (DLFA) is the statutory Auditor for BPs and DPs. The DLFA conducts only test audit of VPs' accounts. Deputy Block Development Officer (DBDO) audits the accounts of the VPs and certifies them.

### **Placing of Audit Report of DLFA**

As per Section 20 of Local Fund Audit Act, 2014, DLFA should submit annually a consolidated report of the accounts audited by him to the Legislative Assembly. DLFA stated (November 2015) that the draft rules had been framed in this regard and submitted to Government for legal and administrative approval; orders were awaited.

### **Arrears in Audit by DLFA**

(a) Audit of DPs and BPs by DLFA was completed upto 2013-14. Position of arrears in audit of DPs and BPs by DLFA for 2014-15 as of August 2015 is given in **Table 1.2**.

**Table 1.2: Position of audit of DPs and BPs by DLFA**

Category of PRI	Year	Total number	Accounts submitted	Audit completed	Audit pending
DPs	2014-15	31	3	3	Nil
BPs	2014-15	385	385	9	376

(Source: Details furnished by DLFA)

(b) Out of 2,816 VPs to be audited by DLFA for 2013-14, audit of 2,786 VPs was completed as of August 2015.

(c) As of October 2015, 40,414 and 351 paragraphs of DLFA's Inspection Reports (IRs) relating to years upto 2014-15 in respect of BPs and DPs respectively were pending settlement as given in **Table 1.3**.

**Table 1.3: Year-wise pendency of paragraphs of DLFA**

Year of IR	Number of paragraphs pending in respect of	
	BPs	DPs
Upto 2010-11	12,440	45
2011-12	5,646	35
2012-13	9,489	105
2013-14	12,442	93
2014-15	397	73
<b>Total</b>	<b>40,414</b>	<b>351</b>

(Source: Details furnished by DLFA)

Audit analysis of the data revealed that out of 40,414 pending paragraphs of BPs 18,086 (45 *per cent*) related to period prior to 2012-13. This indicates that sufficient attention was not given to settle the long pending paragraphs.

Further, DLFA reported (November 2015) that 74 District High Level Committee meetings were held during 2014-15 and 2,254 pending paragraphs relating to BPs were settled.

### **1.5.2 Audit by Comptroller and Auditor General of India (CAG)**

Audit of PRIs is conducted under Section 20 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to PRIs. Technical Guidance and Support (TGS) is provided by the Principal Accountant General to DLFA.

### **Audit Reports of CAG**

CAG's Audit Reports on PRIs for the years 2000-01, 2005-06 and 2006-07 were discussed and recommendations were given by the Public Accounts Committee (PAC). As of December 2015, Action Taken Reports were pending from Rural Development and Panchayat Raj Department on 152 recommendations<sup>1</sup> relating to 1992-93 to 2008-09 for final settlement, which *inter-alia* consisted of paragraphs relating to PRIs included in the Audit Reports (Civil), (State Finances) and (Local Bodies).

## **1.6 Response to audit observations**

Important irregularities detected by Audit during test-check of records of DPs and BPs are followed up through IRs issued to the concerned DPs and BPs and

---

<sup>1</sup> 1992-93(2), 1993-94(10), 1995-96(1), 1997-98(5), 1998-99(22), 1999-2000(17), 2000-2001(13), 2001-02(19), 2003-04(8), 2004-05(2), 2005-06(15), 2006-07(28), 2007-08(4) and 2008-09(SF)(6)

---



Commissioner of Rural Development and Panchayat Raj (CRDPR). As of December 2015, 759 paragraphs contained in 247 IRs issued during the period from 2009-10 to 2014-15 were pending settlement for want of satisfactory replies.

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **1.7 Ombudsman**

As per Paragraph No.10.161(iii) of the recommendations of the Thirteenth Finance Commission (TFC), the State Government must put in place a system of independent local body Ombudsman who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials and recommend suitable action and the system should be made applicable to all elected functionaries and officials in all Municipal Corporations, Municipalities and Zilla Parishads at least. However, the Tamil Nadu Local Bodies Ombudsman Act, 2014, enacted by GoTN in December 2014, did not cover BPs and VPs. Though TFC recommended establishment of Local Body Ombudsman at least at DPs level, BPs and VPs in Tamil Nadu may also be brought under the purview of Local Bodies Ombudsman Act, 2014 (as they implemented schemes meant for PRIs) in line with Government of Kerala which had brought all officials and elected representatives of all local bodies (Municipal Corporations, Municipalities and Panchayats of all three levels) under the purview of Ombudsman for Local Self Government Institutions.

#### **1.8 Social Audit**

As per Section 15(5)(d) of the National Rural Employment Guarantee Act, 2005, Social Audit of all works in the jurisdiction of VP are to be carried out by the Grama Sabha and prompt action has to be taken on the objections raised in the Social Audit. GoTN established (January 2013) an independent organisation *viz.* Social Audit Society of Tamil Nadu (SASTA) which was registered as a Society. During the year 2014-15, SASTA conducted 1,132 Social Audits (January 2015 to March 2015) in VPs in Tamil Nadu.

#### **1.9 Submission of Utilisation Certificates**

DRDPR stated (January 2016) that immediately after utilising the Central Finance Commission (CFC) grants at panchayat level, Utilisation Certificates (UCs) were sent to Government of India (GoI). DRDPR further stated that UCs for CFC grants 2014-15 were sent to GoI on 15 December 2014 (first instalment) and 25 May 2015 (second instalment).

## **1.10 Internal Audit and Internal Control System of PRIs**

DRDPR stated (January 2016) that each VP had to send a monthly report on the expenditure to the Block Development Officer (VPOs). DRDPR further stated that the monthly reports were being received at Block and District level; in addition, all the expenditure made in VPOs were placed in the Grama Sabha.

## **1.11 Financial Reporting Issues**

### **1.11.1 Source of funds**

The source of receipts for VPOs and BPOs are non-tax revenue, assigned revenue from State Government and grants given by State Government and GoI for various purposes and State and Central Finance Commissions grants. In addition, VPOs have the power to levy taxes. State Finance Commission (SFC) grants, CFC grants, grants given by State Government and GoI and assigned revenue were released from the Directorate of Rural Development and Panchayat Raj to the District Collectors.

**Table 1.4** below shows the details of receipts and expenditure of the PRIs for the period 2010-11 to 2014-15.

**Table 1.4: Details of receipts and expenditure of PRIs**

	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Own revenue	466	528	631	766	422
Assigned revenue	314	564	705	975	866
Grants	3,071	3,685	4,484	4,375	4,358
<b>Total receipts</b>	<b>3,851</b>	<b>4,777</b>	<b>5,820</b>	<b>6,116</b>	<b>5,646</b>
Revenue expenditure	597	623	1,294	1,025	3,154
Capital expenditure	784	940	1,308	1,813	2,385
<b>Total expenditure</b>	<b>1,381</b>	<b>1,563</b>	<b>2,602</b>	<b>2,838</b>	<b>5,539</b>
Percentage of capital expenditure to the total expenditure	57	60	50	64	43

(Source: Details furnished by DRDPR)

### **1.11.2 Recommendations of State Finance Commission**

Fourth SFC, constituted in December 2009, recommended (September 2011) a vertical sharing ratio of 56:44 between rural and urban local bodies. GoTN accepted (June 2013) the recommendations with modifications to adopt the vertical sharing ratio between rural and urban local bodies at 58:42 and the horizontal sharing ratio of SFC devolution funds at 60:32:8 among VPOs, BPOs and DPOs respectively. Out of 130 recommendations given by Fourth SFC, GoTN accepted 112 recommendations.

### **1.11.3 Recommendations of Thirteenth Finance Commission**

Though the TFC recommended the release of ₹ 545.95 crore and ₹ 371.58 crore towards Basic Grant and General Performance Grant respectively, GoI released only ₹ 515.52 crore and ₹ 152.96 crore. The reason

for short allocation of Basic Grant by GoI was not available on record. GoI forfeited the State share of General Performance Grant amounting to ₹ 218.62 crore due to non-fulfilment of the condition of appointing Ombudsman for PRIs by the State.

#### **1.11.4 Maintenance of records**

**Road Register :** Out of 65 test checked BPs during 2014-15, it was found that entries in respect of improvements carried out on earthen roads as Black Topped/Water Bound Macadam/Cement Concrete roads were not made in the register in three BPs (Andanallur – from 2010-11 to 2014-15; Uthangarai - from 2011-12 to 2014-15 and Sankagiri – from 2012-13 to 2014-15). As a result, the current status of the roads could not be verified in Audit. As improvement works of roads are taken up with reference to the present status of roads, non-updation of Road Registers would lead to incurring of expenditure on the same roads frequently.

#### **1.11.5 Reconciliation of Balances as per cash book with Bank Pass Book**

At the end of each month, the balance as per cash book in Panchayat Raj Institutions Accounting Software (PRIA Soft) had to be reconciled with the pass books of bank, post office or treasury. Analysis of PRIA Soft data (March 2015) revealed that only 1,383 PRIs (31 DPs, 45 BPs and 1,307 VPs) completed the bank reconciliation up to December 2014 and the balance 11,557 PRIs (340 BPs and 11,217 VPs), completed bank reconciliation up to December 2013 only.

Cheques or cash remitted directly into the bank, treasury or post office which were not taken into cash book were added at the time of monthly reconciliation. Similarly, cheques received or cheques issued by PRIs but not yet realised in bank, treasury or post office were deducted or added from the cash book. However, these transactions did not appear in the monthly reconciliation statement of PRIA Soft cash book.

#### **1.11.6 Maintenance of accounts by PRIs**

A new simplified accounting framework, namely the “Model Accounting System (MAS) for Panchayats” was developed in 2009 to bring about transparency and accountability in the maintenance of accounts of PRIs. PRIA Soft was developed by National Informatics Centre (NIC) in consultation with Ministry of Panchayati Raj (MoPR) to establish centralised accounting software for use by all the three tiers of PRIs. It also facilitated the adoption of eight model accounting formats as prescribed by the CAG.

GoTN stated (October 2015) that out of 12,524 VP Secretaries in Tamil Nadu, training in PRIA Soft had been imparted to 9,368 VP Secretaries.

***1.11.7 Issue related to AC/DC Bills***

The practice of preparing abstract contingent bills and detailed contingent bills for managing Temporary advances is not in vogue in Tamil Nadu State including PRIs.

***1.11.8 Maintenance of database and the formats therein on the finances of PRIs***

Even in the case of Panchayat Secretaries to whom the training was imparted, the data were entered in PRIA Soft through outsourcing. The data entered in PRIA Soft were not complete and reliable as discussed in Paragraph Nos.2.1.7.5 and 2.1.7.6(b) of this Report. However, the DRDPR stated (January 2016) that separate action would be taken for improving the existing PRIA Soft – MAS through MoPR.