

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 73rd amendment to the Constitution accorded constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, regular 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 73rd amendment to the Constitution, the State Legislature enacted the Tamil Nadu Panchayats Act, 1994. Under this Act, a three-tier system of PRIs *viz.*, District Panchayats (DPs) at the district level, Panchayat Unions or Block Panchayats (BPs) at the intermediary level and Village Panchayats (VPs) at the village level was established.

Important statistics of the State regarding population and PRIs is given in **Table 1.1** below:

Table 1.1: Important statistics of the State

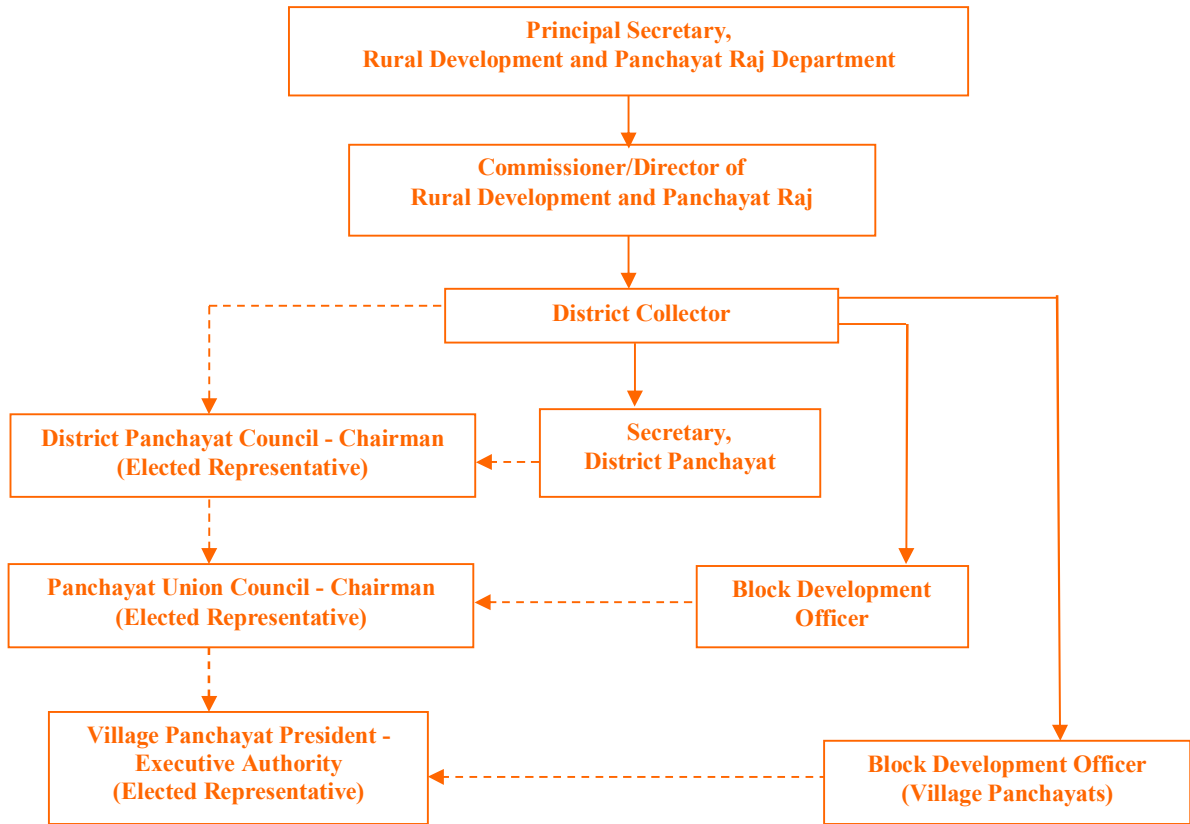
Population	7.21 crore
Population density	555 persons per square kilometre
Gender ratio	996 females per 1,000 males
Rural population	51.60 <i>per cent</i>
Literacy	80.09 <i>per cent</i>
Number of PRIs	12,940
- District Panchayats	31
- Block Panchayats	385
- Village Panchayats	12,524

(Source: Census of India 2011 and Policy Note of the Rural Development and Panchayat Raj Department for 2016-17)

Abbreviations used in this Report are listed in the Glossary at Page 102.

1.2 Organisational setup of PRIs

An organogram of PRIs as of March 2017 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 (**Appendix 1.1**). Director of Rural Development and Panchayat Raj (DRDPR) stated (November 2017) that Government of Tamil Nadu (GoTN) delegated certain powers to the three tiers of PRIs to supervise, assist and monitor the works, falling under the 29 functions implemented by various departments, as envisaged in the Constitution (Seventy-third Amendment) Act, 1992.

1.4 Formation of District Planning Committee

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 the urban district of Chennai) in Tamil Nadu. District Panchayat Chairperson is the Chairperson and the District Collector is the Vice Chairperson of the DPC. Members of Parliament, Members of Legislative Assembly and representatives of Local Bodies are appointed as members of the Committee.

Functions of the DPC are collection, compilation and updation of information on the natural resources of the district to create a comprehensive database for decentralised planning. It consolidates the plans prepared by Rural Local Bodies and Urban Local Bodies (ULBs), which facilitates the State Planning Commission in the preparation of State Plan. The Committee also advises the State Government regarding implementation of State Schemes.

1.5 Audit arrangement

1.5.1 Primary Auditor

Director of Local Fund Audit (DLFA) is the statutory Auditor for Block Panchayats and District Panchayats. The DLFA is conducting only test audit of VPs' accounts. The DLFA takes up audit of 20 *per cent* of VPs in addition to 2 *per cent* of the VPs selected by DRDPR every year. Deputy Block Development Officer audits the accounts of the VPs and certifies them.

Placing of Audit Report of DLFA

As per Section 20 of the Tamil Nadu Local Fund Audit Act, 2014, DLFA should submit annually a consolidated report of the audited accounts of local bodies to Government, which should cause it to be laid before the Legislative Assembly. As per Rule 19 of the Tamil Nadu Local Fund Audit Rules, 2016, the DLFA should, not later than 30th September of every year, send to the Government, a consolidated report of the accounts of local authorities audited during the previous financial year, containing such particulars, which are to be brought to the notice of the Government as per Section 20 of the Act. The DLFA stated (December 2017) that the consolidated Audit Report of ULBs and PRIs for the year 2015-16 would be submitted to the Government before 31 March 2018. DLFA further stated that for the year 2016-17, the same would be submitted after completion of audit.

Arrears in audit by DLFA

(a) Audit of all DPs and BPs by DLFA was completed upto 2015-16. Position of arrears in audit of DPs and BPs by DLFA for 2016-17, as of August 2017, 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	Pendency in	
					Submission of accounts	Completion of audit
DPs	2016-17	31	8	8	23	Nil
BPs	2016-17	385	343	35	42	308

(Source: Details furnished by DLFA)

It may be observed from **Table 1.2** that there was pendency in submission of accounts by DPs and audit by DLFA in respect of BPs for the year 2016-17.

(b) DLFA completed audit of 1,575 out of 2,856 VPs for the year 2016-17 as of November 2017. DLFA stated (December 2017) that vacancies in various cadres were the reasons for the pendency in audit.

(c) As of August 2017, 47,945 and 375 paragraphs of DLFA's Inspection Reports (IRs) relating to period upto 2016-17 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 2011-12	11,391	66
2012-13	3,786	48
2013-14	4,536	32
2014-15	10,473	52
2015-16	17,614	64
2016-17	145	113
Total	47,945	375

(Source: Details furnished by DLFA)

Audit analysis revealed that in respect of BPs, 30,186 (63 *per cent*) out of 47,945 pending paragraphs and in respect of DPs, 198 (53 *per cent*) out of 375 pending paragraphs related to period up to 2014-15.

A comparison of pendency of paragraphs under BPs as of August 2017 with the pendency position as of October 2016 revealed that the settlement was only 22 *per cent* for the period upto 2011-12 and only 37 *per cent* for 2012-13 during the period as shown in **Appendix 1.2**. In respect of DPs, the same was 19 and 41 *per cent*. This indicated that adequate attention was not given to settle the long pending paragraphs.

The DLFA stated (December 2017) that 51 High Level Committee meetings were held during 2016-17 and 1,260 paragraphs pertaining 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 is provided by the CAG to DLFA.

Audit Reports of CAG

CAG's Audit Reports on PRIs for the years 2000-01, 2005-06 to 2008-09 were discussed and 46 recommendations were made by the Public Accounts Committee. As of November 2017, Action Taken Reports were pending from Rural Development and Panchayat Raj Department on 144 recommendations¹

¹ 1993-94 (10), 1995-96 (1), 1997-98 (5), 1998-99 (22), 1999-2000 (17), 2000-01 (13), 2001-02 (19), 2003-04 (8), 2004-05 (2), 2005-06 (15), 2006-07 (28) and 2007-08 (4).

relating to 1993-94 to 2007-08 for final settlement, which *inter-alia* consisted of paragraphs relating to PRIs included in the Audit Report (Civil) and Audit Report (Local Bodies).

1.6 Response to audit observations of CAG

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 DRDPR. As of November 2017, 1,449 paragraphs contained in 347 IRs issued upto 2016-17 were pending settlement for want of satisfactory replies.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

1.7 Ombudsman

As per Paragraph 10.161(iii) of the recommendations of the Thirteenth Central Finance Commission (TCFC), 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 against them. The Tamil Nadu Local Bodies Ombudsman Act, 2014, enacted by the State Legislature in December 2014, did not cover BPs and VPs. However, 63 complaints in respect of VPs and BPs received by the Ombudsman during 2016-17 were forwarded to the concerned District Collectors for further necessary action.

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 is to be carried out by the Grama Sabha and prompt action has to be taken on the objections raised during Social Audit. GoTN established (January 2013) an independent organisation *viz.* Social Audit Society of Tamil Nadu (SASTA), which was registered as a Society under the Tamil Nadu Societies Registration Act, 1975. The Director, SASTA stated (November 2017) that during the year 2016-17 (upto 16 November 2017), SASTA conducted audit of 9,321 VPs out of 12,523 VPs.

1.9 Central Finance Commission grant and submission of Utilisation Certificates

The Utilisation Certificates (UCs) for the Central Finance Commission (CFC) grants were required to be sent to Government of India (GoI). The grant of ₹ 1,312.19 crore was released to VPs towards Basic Grant for 2016-17 by Fourteenth CFC. In addition, General Performance Grant of ₹ 172.12 crore was also released to Tamil Nadu by the Fourteenth CFC. The DRDPR stated (November 2017) that UCs for CFC grants for the year 2016-17 were sent to

GoI on 30 September 2016 (first instalment) and 5 June 2017 (second instalment) immediately after the actual utilisation of the grants at panchayat level.

1.10 Internal Audit and Internal Control System of PRIs

The VPs have to send a monthly report on the expenditure to the Block Development Officer (Village Panchayats). The DRDPR stated (November 2017) that the monthly reports were received at Block and District level. Moreover, all the expenditure made in VPs was placed before the Grama Sabha. DRDPR further stated that DLFA placed staff in each Panchayat Union for concurrent audit of Panchayat Union's accounts.

1.11 Financial Reporting Issues

1.11.1 Source of funds

The source of receipts for VPs and BPs are non-tax revenue, assigned revenue from State Government and grants given by State Government, grants given by GoI for various purposes and State and Central Finance Commissions grants. In addition, VPs are empowered to levy taxes like property tax, profession tax and advertisement tax. State Finance Commission (SFC) grants, CFC grants, grants given by State Government and GoI and assigned revenue were released by the DRDPR to the District Collectors.

Table 1.4 shows the details of receipts and expenditure of the PRIs for the period from 2012-13 to 2016-17.

Table 1.4: Details of receipts and expenditure of PRIs

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Own revenue	631	766	422	929	797
Assigned revenue	705	975	866	713	333
Grants	4,484	4,375	4,358	4,758	5,711
Total receipts	5,820	6,116	5,646	6,400	6,841
Revenue expenditure	1,294	1,025	3,154	1,711	1,941
Capital expenditure	1,308	1,813	2,385	1,985	3,019
Total expenditure	2,602	2,838	5,539	3,696	4,960
Percentage of capital expenditure to total expenditure	50	64	43	54	61

(Source: Details furnished by DRDPR)

1.11.2 State Finance Commission Grant

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 VPs, BPs and DPs respectively. The amount of SFC grants released to the PRIs during 2016-17 was ₹ 4,227 crore.

1.11.3 Maintenance of accounts by PRIs

A new simplified accounting framework, namely “Model Accounting System for Panchayats” was developed in 2009 to bring about transparency and accountability in the maintenance of accounts of PRIs. Panchayat Raj Institutions Accounting Software (PRIA Soft) was developed by National Informatics Centre in consultation with Ministry of Panchayati Raj, GoI to establish centralised accounting software for use by all the three tiers of PRIs.

DRDPR stated (November 2017) that all the DPs, BPs and VPs had completed online entries of accounts using PRIA Soft application upto 2016-17.