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**Part - A**

**Panchayat Raj Institutions**

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# **Chapter – I**

## **An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayat Raj Institutions**

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## An Overview of the Functioning of the Panchayat Raj Institutions (PRIs) in the State

### 1.1 Introduction

Government of India (GoI) enacted (1992) the 73<sup>rd</sup> amendment to the Constitution to empower Panchayat Raj Institutions (PRIs) as local self-governing institutions to ensure a more participative governing structure in the country. GoI further entrusted the implementation of various socio-economic development schemes, including those enumerated in the Eleventh Schedule to the Constitution, to the PRIs.

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-governance and implement schemes for economic development and social justice.

Accordingly, State Government had enacted Andhra Pradesh Panchayat Raj (APPR) Act<sup>1</sup> in 1994 repealing all the existing Acts, to establish a three-tier system viz., Gram Panchayat (GP), Mandal Praja Parishad (MPP) and Zilla Praja Parishad (ZPP) at Village, Mandal and District levels, respectively.

#### 1.1.1 State profile

As per 2011 census, total population of the 10 districts of Telangana State was 3.52 crore, of which 2.16 crore (61 *per cent*) lived in rural areas. A profile of rural Telangana is given below:

Table 1.1

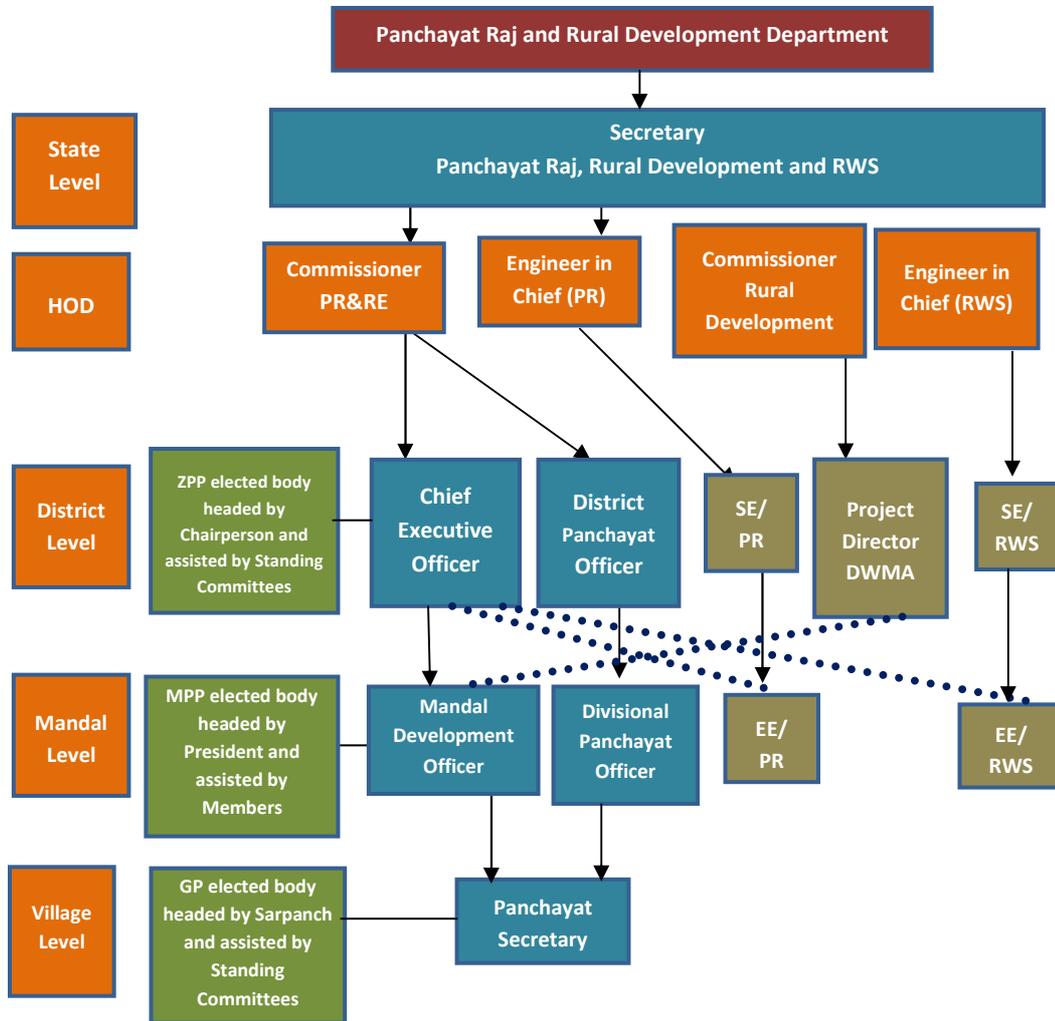
S.No.	Indicator	Unit	State
1.	Rural population	Crore	2.16
2.	Rural sex ratio	Females per1000 Males	999
3.	Rural literacy rate	Percentage	57.30
4.	Zilla Praja Parishads	Number	9
5.	Mandal Praja Parishads	Number	443
6.	Gram Panchayats	Number	8,778
Total number of PRIs (4+5+6)			9,230

Source: Information furnished by CPR&RD and Telangana State Portal (August 2016) by State Government

<sup>1</sup> Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

## 1.2 Organisational set-up of PRIs

Organisational arrangements for the PRIs, inclusive of Government machinery and elected representatives in the State, are as follows.



Dotted lines represent partial supervision

The PRIs are under the administrative control of the Commissioner, Panchayat Raj and Rural Employment (CPR&RE). The elected members of ZPP, MPP and GP are headed by Chairperson, President and Sarpanch respectively. They convene and preside over the meetings of standing committees and General body. The executive authorities of ZPP, MPP and GP are Chief Executive Officer, Mandal Parishad Development Officer and Panchayat Secretary respectively. They hold the executive powers for the purpose of carrying out the provisions of the APPR Act, 1994.

### **1.3 Functioning of PRIs**

Eleventh Schedule to 73<sup>rd</sup> Constitutional Amendment Act, 1992 lists 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10<sup>2</sup> functions to PRIs and, thereafter, no functions were devolved. Funds relating to devolved functions are being released to PRIs through line departments concerned. As per the information furnished (October 2016) by Commissioner, Panchayat Raj and Rural Employment (CPR&RE), only three departments released funds amounting to ₹ 19.90 crore to PRIs in 8 out of 9 districts during 2015-16 (*Appendix-1.1*).

### **1.4 Formation of various committees**

As per the provisions of APPR Act, 1994 various committees are constituted at ZPP, MPP and GP level along with District Planning Committee (DPC). At ZPP level, seven<sup>3</sup> standing committees are to be constituted to monitor the progress of implementation of works and schemes related to subjects assigned to them. In every MPP and GP, there are to be functional committees for agriculture, public health, water supply, sanitation, family planning, education and communication to monitor the progress of implementation of works and schemes. During the year 2015-16, in respect of eight<sup>4</sup> out of 16 test-checked GPs, functional committees were not constituted.

The State is empowered to constitute a District Planning Committee (DPC) at district level. DPC is to ensure that each Panchayat in the district prepares a development plan for the financial year which is to be consolidated into the District Development Plan and is to be submitted to the Government for incorporation into the State plan. On scrutiny of records of 16 GPs in Adilabad, Karimnagar, Nizamabad and Ranga Reddy districts, it was observed that the Action Plans were not prepared in 15<sup>5</sup> GPs.

### **1.5 Audit arrangement**

#### **1.5.1 Primary Auditor**

Director, State Audit (DSA), functioning under the administrative control of Finance Department, is the statutory auditor for PRIs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report for presentation to the State Legislature. The DSA has two Regional Offices and nine district offices in the State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons

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<sup>2</sup> (i) Agriculture and Agriculture Extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Health and Sanitation (v) Education, including Primary, Secondary and Adult Education and non-formal education (vi) Drinking Water (vii) Poverty Alleviation Programme (viii) Women and Child Development (ix) Social Welfare, including Welfare of the Handicapped and Mentally retarded and (x) Welfare of the Weaker sections and in particular of the Scheduled Castes and Scheduled Tribes

<sup>3</sup> (i) Planning and Finance (ii) Rural development (iii) Agriculture (iv) Education and Medical service (v) Women welfare (vi) Social welfare and (vii) Works

<sup>4</sup> Three GPs of Adilabad district, four GPs of Nizamabad district and one GP of Rangareddy district

<sup>5</sup> Four GPs of Adilabad district, five GPs of Karimnagar district, five GPs of Nizamabad district and one GP of Rangareddy district

responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (November 2016) by DSA, audit of the accounts of 14 MPPs and 4,683 GPs were in arrears. DSA attributed delay in audit of accounts to non-production of records by MPPs and GPs. As of March 2016, 534 Surcharge Certificates for ₹ 1.60 crore were issued, out of which ₹ 21.86 lakh in respect of 43 cases were recovered.

DSA stated (November 2016) that Consolidated Audit and Accounts Report for 2011-12 was submitted to Finance Department and the Government had tabled the Report on 31 March 2016. Consolidation of Reports for the years 2012-13 and 2013-14 are under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment etc.

### **1.5.2 Audit by Comptroller and Auditor General of India**

CAG conducts audit of PRIs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government had entrusted (August 2004) the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test-check of PRIs, a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2015-16 was issued in July 2016.

#### ***Planning and conduct of audit***

The Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2015-16, 23 PRIs (3 ZPPs, 4 MPPs and 16 GPs), falling under the department of Panchayat Raj and Rural Development, were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2015 was tabled in the State Legislature on 30 March 2016.

### **1.6 Response to Audit Observations**

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also

discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of September 2016, 137 IRs containing 1,049 paragraphs pertaining to the period up to 2015-16 were pending settlement as given below. Of these, first replies have not been received in respect of 19 IRs and 220 paragraphs.

**Table 1.2**

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2014-15	131	919	13	114
2015-16	6	130	6	106
<b>Total</b>	<b>137</b>	<b>1,049</b>	<b>19</b>	<b>220</b>

Lack of action on IRs is fraught with the risk of serious financial irregularities pointed out in these reports remaining unaddressed.

## Accountability Mechanism and Financial Reporting Issues

### Accountability Mechanism

#### 1.7 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local body ombudsman system. CPR&RE stated (October 2016) that ombudsman system was not adopted and Lokayukta Act has been amended to take up complaints against the functionaries and elected representatives of PRIs. Though an independent ombudsman system was not adopted in the state, the State Government complied with this condition by making amendments to the existing AP Lokayukta Act 1983 and, hence, grants were released by GoI.

#### 1.8 Social Audit

Social audit involves verification of implementation of programme/scheme and delivery of its envisaged results by the community with active involvement of primary stakeholders. Social Audit is widely accepted as an important mechanism to address corruption and strengthen accountability in government service delivery. The State Government initiated social audits in 2006 through the Strategic Performance Innovation Unit (SPIU) to undertake social audit of implementation of Food for Work Programme in the State on a pilot basis. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and Transparency (SSAAT) to carry out social audits of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other anti-poverty/welfare programmes of the Department of Rural Development.

Post bifurcation of the State of Andhra Pradesh into Telangana and Andhra Pradesh with effect from 2 June 2014, the existing Society has been retained for Telangana and a new Society was registered under the Registrar of Societies Act, 2001 for Andhra Pradesh.

- i. As per Section 3(1) of Scheme Rules, State Government should facilitate conduct of Social Audit of the works taken up under the Act in every Gram Panchayat at least once in six months, *i.e.*, twice a year, and the Social Auditors are required to audit 100 *per cent* verification of muster rolls and work site. During the year 2015-16, SSAAT had facilitated Social Audits in respect of 8,771 GPs (out of 8,778 GPs) in the State. However, only 457 GPs (five *per cent*) were covered twice a year. SSAAT attributed (December 2016) the shortfall in coverage of audit to delay in furnishing records, postponement of public hearings, dearth of resource persons etc.
- ii. As per State Social Audit Rules, the District Vigilance Cell is responsible to take follow up action on the social audit observations immediately (within three days) on conclusion of the mandal social audit public hearing. During the year 2015-16, SSAAT found deviations amounting to ₹143.84 crore, of which ₹117.09 crore were accepted by the Presiding Officer<sup>6</sup>. Against this, only ₹three lakh was recovered as of March 2016.

### **1.9 Submission of Utilisation Certificates (UCs)**

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. During 2015-16, out of total releases of ₹695.99 crore, UCs amounting to ₹582.38 crore were yet to be furnished by PRIs as of March 2016. On scrutiny of records of 23<sup>7</sup> PRIs during 2015-16, it was seen that UCs in respect of 13<sup>th</sup> Finance commission and BRGF amounting to ₹155.71 crore for the period (2007-08 to 2014-2015) were yet to be furnished as of March 2016.

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

As per the information furnished (October 2016) by CPR&RE no internal audit system was adopted. As per Section 44(2)(a)(b) of APPR Act, 1994 the Government should appoint District Panchayat Officer, Divisional Panchayat Officer and Extension Officers as Inspecting Officers for overseeing the operations of Gram Panchayat (GP). On scrutiny of records of 16 GPs during 2015-16, it was seen that in respect of 12<sup>8</sup> GPs, inspections were not conducted (2011-15) by any of the above authorities.

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<sup>6</sup> District Programme Officer nominates a senior officer not less than the rank of the Additional District Programme Coordinator for presiding over the public hearing

<sup>7</sup> 16 GPs(Adilabad-4, Karimnagar-5, Medak-1, Nizamabad-5 and Ranga Reddy-1), 4 MPPs (Nalgonda-1, Nizamabad-1, Ranga Reddy-2), 3 ZPPs (Adilabad, Karimnagar, Nizamabad)

<sup>8</sup> 4 GPs of Adilabad, 5 GPs of Karimnagar, 2 GPs of Nizamabad and 1 GP of Rangareddy district

## Financial Reporting Issues

### 1.11 Sources of funds

Resource base of PRIs consists of own revenue generated by collection of tax<sup>9</sup> and non-tax<sup>10</sup> revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts<sup>11</sup>. The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary, respectively.

Summary of receipts of PRIs for the years 2011-16 are given below. Receipts for the period 2011-14 pertain to the composite state whereas the receipts for the period 2014-16 pertain to the state of Telangana.

**Table 1.3**

(₹ in crore)

S.No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
1	<b>Own Revenue</b>	1,009.24	976.50	736.50	16.96*	306.79
2	<b>Assigned Revenue</b> <sup>12</sup>	344.02	154.36	457.24	10.97*	NA#
3	<b>State Government Grants</b>	1,185.85	343.97	350.59	19.60	56.14
4	<b>GoI Grants</b>	2,342.19	1,201.03	1,330.86	1,131.28	695.98
5	<b>Other Receipts</b>	331.68	84.18	NA	NA	107.61
	<b>Total</b>	<b>5,212.98</b>	<b>2,760.04</b>	<b>2,875.19</b>	<b>1,178.81</b>	<b>1,166.52</b>

Source: Commissioner, Panchayat Raj

\* data pertains to only 4 ZPPs and GPs of Adilabad district

# Data not made available to audit

It could be seen from above that there was improvement in release of grants by State Government during 2015-16 compared to 2014-15. However, there was reduction by 38 per cent in GoI grants in 2015-16.

#### 1.11.1 Financial assistance to PRIs

The quantum of financial assistance provided by State Government to PRIs by way of grants and loans for the years 2011-14 pertaining to the composite state of Andhra Pradesh and 2014-16 pertaining to state of Telangana is given below:

<sup>9</sup> Property tax, advertisement fee etc.,

<sup>10</sup> Water tax, rents from markets, shops and other properties, auction proceeds etc.,

<sup>11</sup> Donations, interest on deposits etc.,

<sup>12</sup> Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

Table 1.4

(₹in crore)

Details	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Budget	302.75	329.27	328.89	203.18	819.04	1,983.13
Actual Release	151.31	158.10	164.57	30.30	752.12	1,256.40
Expenditure	96.87	98.20	114.85	30.30	622.29	962.51

Source: Commissioner, Panchayat Raj

### 1.11.2 Fund flow arrangement in flagship programmes

Details of fund flow with regard to the two flagship programmes of GoI are given below:

Scheme	Fund flow
<b>Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)</b>	<p>The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was enacted (September 2005) and implemented in a phased manner. The Act aims at enhancement of livelihood security of the households in rural areas of the country, by providing at least 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. Creation of durable assets is also an important objective of the Act, with other auxiliary objectives including protection of environment, empowering rural women, reducing rural urban migration, fostering social equity, and strengthening rural governance through decentralisation and processes of transparency and accountability.</p> <p>The funds received from GoI and State Government are pooled in State Employment Guarantee Fund (SEGF). The fund flow is monitored through Central Fund Management System (CFMS). Share of both State and Central are kept with the nodal bank at Hyderabad. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the Director, EGS as and when wages/payments are due. During 2015-16 ₹ 2,084.73 crore was released by GoI and State Government, of which ₹ 2,032.68 crore was incurred as expenditure. On scrutiny (July 2015) of records of Commissioner, Rural Development (CRD), it was observed that</p> <ol style="list-style-type: none"> <li>As per MGNREGS operational guidelines, a maximum of six <i>per cent</i> can be utilised towards administrative expenses over and above the wage and material expenses during the financial year. Administrative expenditure during the period 2011-16 was ₹ 1,079.88 crore. These expenses exceeded the prescribed limit by ₹ 519.30 crore, as worked out during the years 2010-11 to 2015-16. CRD stated (January 2016) that GoI was addressed for enhancement of limit of administrative cost from six <i>per cent</i> to 10 <i>per cent</i> (October 2011); orders were awaited. The State continued to incur administrative expenses over and above six <i>per cent</i> without the approval of GoI during the period 2012-16.</li> <li>State Government is liable to pay interest at the rate of 12 <i>per cent</i> for delay in transfer of GoI funds along with 10 <i>per cent</i> matching state share to Programme Fund beyond three days. This was revised to seven days from 2015-16. State Government transferred GoI funds along with its matching share amounting to ₹ 3,057.01 crore to Programme fund with delays ranging from 22 days to 356 days during 2014-16. However, State Government had not transferred the interest portion worked out as ₹ 108.43 crore, to Fund account as of March 2016.</li> </ol>

<p>CRD replied (January 2016) that proposals would be submitted for release of interest.</p>	<p>iii. MGNREGS Act<sup>13</sup> stipulated payment of unemployment allowance to the wage seeker if he/she was not provided employment within fifteen days of the receipt of application. Accordingly State Government issued (November 2012) orders to Programme Officers (POs) for ensuring the list of households for payment of unemployment allowance on the last working day of each month and reiterated the orders in March 2014 for strict compliance to avoid delay in settling the payment. Test-check (July 2015) of the records of CRD pertaining to the payment of unemployment allowance to the wage seekers in the State showed that as of March 2016, ₹ 106.49 crore (2013-16) towards unemployment allowance pertaining to 2.13 lakh households remained unsettled due to pending decision of POs.</p> <p>iv. An amount of ₹ 74.63 crore was yet to be released (as of January 2016) by the State Government towards state liability.</p>
<p><b>Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA)</b></p>	<p>The Centrally Sponsored Scheme of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) has been launched by GoI in the 12th Five Year Plan period with a view to strengthen the Panchayat Raj system across the States and to do away with the factors that constrain the same. The scheme of RGPSA, with absorption of, Rasthriya Gram Swaraj Yojana (RGSY), Panchayat Mahila Evam Yuva Shakti Abhiyan (PMEYSA), Panchayat Empowerment Accountability Incentivisation Scheme (PEAIS), e-Panchayat and Resource Support to States (RSS) came to be implemented in full swing with effect from the financial year 2013-14.</p> <p>The objectives of the scheme are to enhance capacities and effectiveness of Panchayats and the Gram Sabhas, enable democratic decision-making and accountability in Panchayats and promote people’s participation; strengthen the institutional structure for knowledge creation and capacity building of Panchayats; promote devolution of powers and responsibilities to Panchayats according to the spirit of the Constitution and PESA Act; strengthen Gram Sabhas to function effectively as the basic forum of people’s participation, transparency and accountability within the Panchayat system; create and strengthen democratic local self-government in areas where Panchayats do not exist; strengthen the constitutionally mandated framework on which Panchayats are founded.</p> <p>Funds for the State Plans under RGPSA are transferred to the Consolidated Fund of State Governments / body designated for such purpose by the State Government through the Central Plan Scheme Monitoring System (CPSMS). Funds under RGPSA are provided in two instalments. In the first instalment, 50 per cent of the funds approved in the annual plan are released. The remaining 50 per cent funds are provided after a Utilisation Certificate for 60 per cent of the first instalment has been received. Transfer of funds to implementing agency (training institution or Panchayats) by State Government should take place within 15 days of receipt of such funds. In case of delays a penal interest at the rate equal to the RBI bank rate shall be transferred to the training institution/Panchayat.</p> <p>During 2013-15 (as of October 2016) ₹ 75.06 crore was released by GoI of which ₹ 73.90 crore was incurred as expenditure. From the year 2015-16 funds from GoI were directly released to Telangana State Institute of Panchayat Raj and Rural Development (TSIPARD).</p>

<sup>13</sup> Section –I (7&8)

### 1.11.3 Application of funds

Summary of expenditure incurred by PRIs for the years 2011-14 pertaining to the composite state of Andhra Pradesh and 2014-16 pertaining to the state of Telangana is given below.

**Table 1.5**

(₹ in crore)

S.No.	Type of expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue expenditure	2,968.66	1,405.50	3,562.39	134.15#	NA
2	Capital expenditure	1,464.15	1,033.47	1,756.98	32.22*	NA
<b>Total</b>		<b>4,432.81</b>	<b>2,438.97</b>	<b>5,319.37</b>	<b>166.37</b>	

Source: Commissioner, Panchayat Raj

# data pertains to only 4 ZPPs and GPs of Adilabad district

\* data pertains to only 3 ZPPs and GPs of Adilabad district

NA-details not made available to audit

### 1.12 Recommendations of State Finance Commission (SFC)

As per Article 243-I of the Constitution and Section 235 of APPR Act, 1994, constitution of SFC once in five years to recommend devolution of funds from the State Government to Local bodies is mandatory. State Government did not constitute SFC after Third SFC (2003). As no State Finance Commission was appointed by the Government in Telangana, the Committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period from 2010 to 2015 also. As per the information furnished by the Government (September 2016), SFC was not constituted after the formation of Telangana State. During 2010-16, State Government released ₹ 179.26 crore to PRIs of Telangana state, of which ₹ 129.60 crore was spent as of October 2016.

On scrutiny (2015-16) of records of 16<sup>14</sup> GPs pertaining to SFC grants, it was seen that in respect of Rekurthy GP, Karimnagar district an amount of ₹ 37,898 lapsed to Government as funds were not utilised in time.

### 1.13 Recommendations of Central Finance Commission

#### 1.13.1 Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI released funds to ZPPs, MPPs and GPs. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas<sup>15</sup>. Allocation and releases for the years 2011-14 pertain to composite state of Andhra Pradesh and information in respect of the period 2014-16 pertain to state of Telangana as given below:

<sup>14</sup> 16 GPs (Adilabad-4, Karimnagar-5, Medak-1, Nizamabad-5 and Ranga Reddy-1)

<sup>15</sup> Schedule areas listed under Schedule-V of Constitution

**Table 1.6**

						(₹ in crore)
13th CFC	2011-12	2012-13	2013-14	2014-15	2015-16	Total
<b>Allocation</b>	834.77	1,179.62	1,357.06	652.89	115.64	<b>4,139.98</b>
<b>Releases</b>	307.65	0	1,585.57	895.16	115.64	<b>2,904.02</b>

*Source: Ministry of Rural Development, GoI*

Commissioner PR stated (October 2016) that ₹1,838.55 crore was released during 2010-16 to Telangana districts, of which an amount of ₹1,091.75 crore was incurred as of October 2016. Out of ₹115.64 crore released during 2015-16, the entire amount was stated to have been incurred as of March 2016. However, on scrutiny of the records of 23 PRIs, it was noticed that an amount of ₹81.71 lakh remained unspent as of March 2016.

### **1.13.2 Fourteenth Finance Commission**

The Fourteenth Finance Commission (FFC) has recommended assured transfers to the local bodies for planning and delivering basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds and any other services smoothly and effectively within the functions assigned to them under relevant legislation. Grants are released under two components *i.e.*, Basic grant and Performance grant. The division of grants between Basic and Performance Grant is in the ratio of 90:10.

Commissioner PR stated (October 2016) that GoI released ₹580.34 crore during 2015-16 and ₹475.46 crore incurred as expenditure as of October 2016.

### **1.14 Maintenance of Records**

Records such as Cash book, Assets Register, Advance Register, Stock Registers etc., are to be maintained as per the provisions of APPR Act, 1994 in respect of ZPPs and MPPs and for GPs as per GP Accounts Manual of Panchayat Raj and Rural Development Department. On scrutiny of records of 23 PRIs, it was seen that cash book was not properly maintained<sup>16</sup> in four<sup>17</sup> PRIs and in eight<sup>18</sup> PRIs stock registers were not maintained.

#### **1.14.1 Physical verification of stores and stock**

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. On scrutiny of records of 23 PRIs

<sup>16</sup> Certificate of the number of pages of cash book was not recorded in the first page; overwriting without attestation by competent authority, monthly closing and reconciliation were not done by Drawing and Disbursing Officer etc.

<sup>17</sup> MPDO Ghatkesar, Lingampet, Saroornagar and ZPP Adilabad

<sup>18</sup> 2 GP of Adilabad , 4 GPs of Nizamabad, MPDOs of Lingampet, Saroornagar

during 2015-16, it was seen that in respect of 10<sup>19</sup> PRIs, annual physical verification of stores and stock was not conducted.

#### **1.14.2 Non-reconciliation of departmental figures with treasury**

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. On scrutiny of records of 23 PRIs during 2015-16, it was seen that in respect of four<sup>20</sup> PRIs reconciliation was pending from 2010-11.

#### **1.14.3 Cases of misappropriation**

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government had ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned. Misappropriation cases noticed by Director, State Audit, which were yet to be disposed of, as of March 2016 are detailed below.

**Table 1.7**

(₹ in lakh)

Unit	2014-15		2015-16	
	No. of cases	Amount	No. of cases	Amount
Zilla Praja Parishads	0	0	0	0
Mandal Praja Parishads	2	1.13	11	4.46
Gram Panchayats	15	3.48	54	21.36
<b>Total</b>	<b>17</b>	<b>4.61</b>	<b>65</b>	<b>25.82</b>

*Source: Information furnished by Director, State Audit*

Urgent action needs to be taken by the Government in this regard.

#### **1.15 Maintenance of Accounts by PRIs**

PRIs maintain accounts on cash basis. A Model Accounting System was prescribed by GoI in consultation with the Comptroller and Auditor General of India. State Government issued orders (September 2010) for adopting this format using PRIASoft, i.e., Panchayat Raj Institutions Accounting Software developed by National Informatics Centre (NIC).

Government confirmed (September 2014) that online accounting was completed in all the PRIs. However, test check (2015-16) of accounts of 23 PRIs using PRIASoft

<sup>19</sup> 5 GPs of Karimnagar, 3 GPs of Nizamabad, MPDOs of Lingampet, Saroornagar

<sup>20</sup> MPDOs of Ghatkesar, Lingampet, Saroornagar, ZPP Adilabad

showed that in respect of GP Balakonda of Nizamabad district, accounts were not maintained in PRIASoft for the period 2013-15.

### **1.16 Issues related to AC / DC Bills**

As per Government orders<sup>21</sup>, an amount drawn on Abstract Contingent (AC) bill should be adjusted by submitting Detailed Contingent (DC) bill for the expenditure incurred, to the AG(A&E) with supporting vouchers within one month of drawal of such amount.

As per the information available in the office of Accountant General (Accounts and Entitlements), an amount of ₹ 3.09 crore was drawn on AC bills by PRIs in the State during 2015-16. DC bills were pending for the entire amount as of November 2016.

### **1.17 Maintenance of database and the formats therein on the finances of PRIs**

State Government had released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹67.37 crore<sup>22</sup> to Commissioner Panchayat Raj of the composite State of Andhra Pradesh for creation of database on finances of PRIs. Of this ₹ 14.35 crore was allocated to Telangana State and transferred to Commissioner, Panchayat Raj, Telangana. Details of utilisation of these funds during 2015-16 were not furnished by CPR&RE despite specific request.

### **1.18 Conclusion**

State Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs. State Government devolved only 10 out of 29 subjects listed in Eleventh Schedule to 73<sup>rd</sup> Constitutional Amendment Act, 1992. Of these, funds relating to only four departments (Agriculture, Animal Husbandry, Backward Classes Welfare and Fisheries) were released to PRIs. The statutory audit of 14 MPPs and 4,683 GPs to be conducted by DSA were in arrears due to non-production of records.

Accountability framework and financial reporting in PRIs were inadequate as evidenced by non-recovery of amounts in respect of deviations found in social audit, non-conducting of inspections of ZPPs and GPs by departmental authorities, improper maintenance of cash books and stock registers, non-furnishing of utilisation certificates, poor conducting of physical verification of stores and stock, non-reconciliation of departmental figures with treasury and non-disposal of misappropriation cases, etc.

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<sup>21</sup> GO Ms. No.285 Finance (TFR-II) Department dated 15 October 2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18 (d) and GO Ms. Nos. 391 and 507 of April/May 2002 of Finance Department

<sup>22</sup> including interest



