

**CHAPTER – II**

**IMPLEMENTATION OF SCHEMES  
(Panchayat And Rural Development Department)**

**2.1 Audit findings on release and utilisation of Twelfth Finance Commission's (TFC) grants of PRIs**

**Introduction:**

The Twelfth Finance Commission (TFC) was required to make recommendations on the measures needed to augment the consolidated funds of the state to supplement the resources of the Panchayats on the basis of the recommendations of the State Finance Commission. The TFC has recommended grants amounting to Rs.1663 crore payable during the period 2005-10 to Madhya Pradesh (M.P.) for Panchayati Raj Institutions (PRIs). TFC also felt that grants for PRIs should be used to improve the service delivery by the Panchayats in respect of water supply and sanitation. Panchayats need to be encouraged to take over water supply assets created under the swajaldhara programme and maintain them with the help of these grants. TFC further recommended that high priority need to be given for creation of database and maintenance of accounts at the grass root levels.

**2.1.1 Delay in release of grant by GOI:**

Para 6.1 of Government of India (GOI) guidelines on TFC grant<sup>1</sup> provided that the Local Bodies grants were to be released in two equal instalments in July and January every year. Para 6.2 of the GOI guidelines provided that two sets of details i.e. one on allocation of funds and another on release of funds should be reported by the State Government prior to the release of each instalment by the GOI. State Finance Secretary was also required to furnish a certificate showing dates and amount of grants received and released by the State within 15 days of the release of each instalments by GOI. Scrutiny of records of the Finance Department (FD) revealed (September 2008) that the first and second instalment amount of Rs. 332.60 crore (first instalment: Rs. 166.30 crore and second instalment: Rs. 166.30 crore) related to the year 2007-08 was released by GOI on 5 September 2007 and 27 February 2008 respectively as shown below:-

Sl. No.	Particulars	Due date of release by GOI	Actual date of release by GOI	Status of UCs submitted to GOI	Period of delay	
					In submission of UC	In release of grant
1.	I <sup>st</sup> instalment	July - 2007	5 September 2007	18 January 2008	120	35 days <sup>2</sup>
2.	II <sup>nd</sup> instalment	January - 2008	27 February 2008	17 July 2008	125	26 days <sup>3</sup>

<sup>1</sup> Guidelines for release and utilisation of grant recommended by the Twelfth Finance Commission for Augmentation of Consolidated funds of the State for supplementing the resources the Rural and Urban Local Bodies (Local Bodies Grants) issued in June 2005.

<sup>2</sup> 35 days (August, 2008; 31 September; 4)

<sup>3</sup> 26 days (February; 26)

It would be observed from the table that there were delay ranging from 26 to 35 days in release of first and second instalment of the grant by the GOI; Audit observes that the delay was due to delayed submission of utilization certificate and information by FD.

### **2.1.2 Lapse of grant amounting to Rs. 6.75 crore:**

Out of Rs.332.60 crore being the total grant of TFC for the financial year 2007-08, a sum of Rs. 6.75 crore was allocated to the Head of the department (PRD) under the budget component (i) Computerisation of database, financial assistance to Local Bodies and (ii) Maintenance of Panchayat accounts. During scrutiny of records of the Commissioner Panchayat Raj Directorate (PRD) Bhopal (September 2008), it was observed that FD accorded a sanction (27.3.2008) to draw Rs. 6.75 crore to be kept in Personal Deposit (PD) Account. But the PRD did not draw the money from treasury in the financial year resulting in lapse of the grant. The PRD attributed the reason for lapse of the grant to late receipt of FD sanction and also to non-feeding it in server of the treasury till 29.3.2008. The reply was not acceptable as this was the responsibility of PRD to ensure draw of the grant before close of the financial year.

### **2.1.3 Utilisation certificate (UCs) includes amount not spent:**

According to the para 14 (format-1) of the revised guidelines of State government, all the Chief Executive Officers, Zila Panchayat (ZP) were required to submit Utilisation Certificates (UCs) on the basis of expenditure incurred by the GPs. Test check of records of 7 ZPs<sup>4</sup> revealed that UCs of Rs. 47.26 crore for the year 2007-08 were prepared and sent to the Commissioner, PRD on the basis of amount drawn from treasury by the ZPs and not on the basis of actual expenditure incurred with the result that a sum of Rs. 0.48 crore was lying unspent in the bank accounts of GPs. On being pointed out in audit, six ZPs<sup>5</sup> stated (September 2008 - February 2009) that in future the UCs would be prepared as per the guidelines. Reply from ZP Gwalior is awaited. In pursuance of para 6.3 of the guidelines of GOI, Secretary FD had furnished utilisation certificate for the entire amount of grant instead of actual expenditure incurred.

### **2.1.4 Non recovery of user charges:**

As mentioned in the para 3.1 (XII) of TFC guidelines, the PRIs should, recover at least 50 per cent of recurring costs in the form of user charges. As per revised guidelines of State Government (para 4.2.1.1), recovery of user charges was to be made from the consumers of water under the Water Supply Scheme of "Naljal".

Scrutiny of information made available by 50 GPs of seven districts revealed that the amount of Rs. 0.53 crore was pending recovery from the consumers of water connections, as detailed in **Appendix -XXIII**. The GPs while attributing

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<sup>4</sup> Bhopal, Dewas, Dhar Gwalior, Indore, Rewa and Sidhi

<sup>5</sup> Bhopal, Dewas, Dhar, Indore, Rewa and Sidhi

the reasons for poor recovery to lack of interest/co-operation of the representatives of public stated (September 2008 - February 2009) that recovery of user charges would be made.

In pursuance of para 6.3 of TFC guidelines, State Government was required to intimate to the GOI, the details of recurring O&M cost recoverable by the PRIs on the scheme of Water Supply, but no such information was furnished. On being enquired FD replied that the concerned department have been directed to comply with the instructions.

### **2.1.5 Social Audit not conducted:**

As per para 13 of the state guidelines (Revised 2006) Social Audit of each construction and development work was to be conducted mandatorily by the Gram Sabhas (Village Assemblies). Scrutiny of information of 41<sup>6</sup> test-checked GPs of 7 districts revealed that the Social Audit was not conducted by the concerned Gram Sabhas for want of instructions, knowledge and work load etc.

## **2.2 Quality of maintenance of accounts in Panchayat Raj Institutions (PRIs) including the aspect of availability of qualified manpower**

### **2.2.1 Introduction:**

In Panchayat Raj Institutions (PRIs), the accounts were traditionally being maintained manually as per formats prescribed in Madhya Pradesh Panchayat Raj Adhiniyam 1993. In view of the large scale decentralisation envisaged in the 73<sup>rd</sup> Constitutional Amendment, the Eleventh Finance Commission (EFC) made specific recommendations about strengthening the accountability framework in PRIs. As per recommendations of the EFC, the Comptroller and Auditor General of India (CAG) had prescribed budget and accounting formats for PRIs on cash based system in 2002. For maintenance of accounts of PRIs a web based system “Pancha Lekha” Software was developed with the help of National Informatics Centre (NIC) which was installed in 116 Janpad Panchayats (JPs) in November 2005 and in rest 197 JPs in August 2006 by National Informatics Centre Services Incorporated (NICSI).

### **2.2.2 Audit Objectives:**

The review was conducted to assess whether:

- The accounts rules made under Adhiniyam were observed in PRIs.
- Data generated was complete, reliable and follows the accounting rules of the PRIs.
- The system documentation was adequate and updated to ensure efficient and continuous operation of the system.
- Qualified manpower for maintenance of accounts in PRIs was available.

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<sup>6</sup> Bhopal (5), Dewas (12), Dhar (2), Gwalior (4), Indore (6), Rewa (2) and Sidhi (10).

### **2.2.3 Scope of audit:**

The quality of maintenance of accounts during 2005-06 to 2007-08 in PRIs was reviewed during 2009. For the purpose of carrying out the review, records of Commissioner, Panchayat Raj, (PRD) three Zila Panchayats<sup>7</sup> (ZPs), 16<sup>8</sup> JPs and 32 Gram Panchayats (GPs) (two GPs of each selected JP) were scrutinised.

### **2.2.4 Maintenance of Accounts:**

#### **2.2.4.1 Non-maintenance of scheme wise cash books and ledgers:**

PRIs were required to maintain separate cash book as well as separate ledger for each scheme. Separate bank accounts were also to be maintained for each scheme. It was, however, observed in eight<sup>9</sup> JPs out of 16 test-checked JPs, that scheme wise separate cash books were not maintained and in three JPs<sup>10</sup> even ledgers were not maintained. Scheme wise separate bank accounts were also not found operated in two JPs<sup>11</sup>. This resulted in non-availability of scheme wise position of receipts, payments and balances with the concerned Chief Executive Officer (CEOs). The possibility of diversion of funds from one scheme to another also cannot be ruled out.

#### **2.2.4.2 Operation of multiple bank accounts:**

To have better internal control over the finances multiplicity of bank accounts should be avoided. It was, however, noticed that 14 bank accounts were operated as 31.03.2008 for Janpad Fund (Janpad Kosh) in JP Parasia (District Chhindwara). This creates difficulty in reconciliation of bank accounts and weakens the control on accounts. In reply the CEO JP Parasia assured (April 2009) that the single account would be maintained in future.

#### **2.2.4.3 Non-reconciliation of balances of cash book and bank pass book:**

Rule 25 and 26 of Madhya Pradesh Janpad Panchayat (Lekha Niyam), 1999 enjoin that the balances of bank pass book shall be checked with reference to the balances of cash book at the close of every month and differences if any, be reconciled. Test check of records of six JPs revealed that a total amount of Rs. 1.64 crore remained un-reconciled as on March 2008 as detailed in **Appendix -XXIV**. The concerned CEOs agreed to reconcile the differences at the earliest. Due to non-reconciliation of cash book balance with the bank pass book, possibility of defalcation and misappropriations of funds could not be ruled out. The cash balance in the cash book also remained doubtful in the absence of reconciliation with balances of bank pass book.

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<sup>7</sup> (1) Balaghat (2) Betul (3) Chhindwara.

<sup>8</sup> Athner, Betul (District -Betul), Baraseoni, Paraswara, Baihar, Katangi, Kirnapur, Kherlangi, Birsa (District-Balaghat), Chaurai, Amarwara, Parasia, Sausar, Pandurna, Tamia, Bichhua (District -Chhindwara).

<sup>9</sup> (1) JP Athner (District- Betul), (2) Amarwara, (3) Sausar (4) Chaurai (District- Chhindwara) (5) Birsa (6) Paraswara (7) Kirnapur (8) Baraseoni (District - Balaghat)

<sup>10</sup> (1) Sausar (2) Birsa (3) Paraswara.

<sup>11</sup> (1) JP Athner (District- Betul), Kirnapur (District -Balaghat)

#### **2.2.4.4 Funds kept out of Saving Bank Accounts:**

Funds received from Central and State Government should be kept in Saving Bank Accounts only. Interest earned on funds of each scheme should be added to the scheme fund. It was observed that despite the Government of India's (GOI) instructions, in this regard funds belonging to various schemes<sup>12</sup> were kept in current bank account in JP Parasia (District – Chhindwara) and in the two test checked GPs of JP Kirnapur (District Balaghat) which resulted in loss of interest to schemes fund. Moreover, Central Bank of India, Rajegaon did not pay interest on saving bank account No. 6402 operated for National Rural Employment Guarantee Scheme (NREGS) from 21 March 2006 to 31 December 2007 (19 months) nor the CEO, JP Kirnapur demanded interest from the Bank. This resulted into a loss of accrued interest of Rs. 8.31 lakh (approx) to the scheme. On being pointed out, the CEO agreed to take up the matter with the bank.

#### **2.2.4.5 Funds kept as fixed deposits:**

Test-check of records of JP Baraseoni (District-Balaghat) revealed that Rs. 20.43 lakh (Eleventh Finance Commission, Rs. 5.00 lakh, National Rural Employment Guaranty Scheme, Rs. 12.00 lakh, National Food for Work programme Rs. 3.43 lakh) were kept as fixed deposit. On maturity the Fixed Deposit Receipts (FDRs) were encashed with interest of Rs. 1.86 lakh earned thereon. The interest so earned was not added to the scheme fund but was transferred to JPs fund resulting in non-availability of funds to that extent for developmental activities.

#### **2.2.5 Inventory of assets not maintained:**

Rule 55 and 60 of Madhya Pradesh Gram Panchayat (Lekha Niyam), 1999, provides that all the public properties situated under the jurisdiction of GPs will be the assets of that GP. GPs were required to maintain assets register to have a complete inventory of all assets owned by them and created under different programmes of rural development. Scrutiny of records of test checked 32 GPs revealed that properties constructed under various rural development schemes except those constructed under NREGS were not found entered in the assets register. Hence the total assets of GPs could not be ascertained. The overall information about assets created under various rural developments schemes were not available with the PRD also. Therefore, the possibility of duplicacy in selection of areas or construction works in the same area and duplicacy of expenditure on same work can not be ruled out.

#### **2.2.6 Non-adherence to Budget and Accounts formats:**

**2.2.6.1** Data on finances of PRIs were to be collected and compiled in standard formats as prescribed by CAG. The PRD adopted the database formats prescribed by CAG in 2002 for all schemes of Rural Development and Panchayat and Social Justice Department and developed a software named "Pancha Lekha" with the help of NIC. This software was installed in the nodes

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<sup>12</sup> CM labour Security Scheme, SGRY (JP Amarwara), IAY, MDM and SGRY (JP Parasia)

supplied to JPs (May 2006). The scheme wise monthly income and expenditure figures of GPs from September 2004 were to be compiled at JPs level. Thereafter, the JPs would submit the monthly accounts to ZPs and Head of the Department through E-mail. But in test checked districts the GPs did not submit their monthly income and expenditure accounts to JPs resulting in the accounts not being compiled in required formats at any level of PRIs. It was also observed that:

- No text file was prepared to send data from JP to ZP inspite of availability of Broad band facility at JP level.
- JPs did not take any initiation to collect the required data from GPs.
- The operational problems faced by the JPs in feeding data in “Pancha Lekha” software, though reported to higher authorities were not rectified by NIC.

#### **2.2.6.2 Sanctions not bearing classification of accounts:**

For successful implementation of computer based accounting system, it was necessary to mention classification of Accounts Head and nature of budget (whether plan or non plan) in the sanction orders of budget allocation.

It was observed that though the PRD gave full description of Accounts heads in their budget sanction orders to ZPs, the ZPs/JPs did not mention scheme or programme heads in budget sanction orders issued by them to implementing agencies (JPs/GPs) due to which the implementing agencies could not classify the transactions in their books, which was essential requirement for computerisation of accounts.

#### **2.2.8 Non-utilisation of available fund:**

Out of total grant of EFC and TFC (Rs. 2164.25 crore)<sup>13</sup> a sum of Rs. 41.63 crore<sup>14</sup> was allocated to the Head of the department (PRD) under the budget component (i) Computerisation of data base, financial assistance to PRIs and (ii) Maintenance of Panchayat accounts. Out of this Rs. 14.17 crore lapsed as the amount was not drawn in time and Rs. 13.94 crore were deposited in Personal Deposit (PD) accounts by Commissioner, Panchayat Raj. The details were as under:

#### **Lapsed Amount: (Rupees in lakh)**

Sl. No.	Year	Grant	Lapsed Amount	Particulars
1.	2004-05	EFC	112.86 629.27	Maintenance of accounts Computerisation of data base, financial assistance to PRIs
2.	2007-08	TFC	675.00	Computerisation of data base, financial assistance to PRIs
	<b>Total</b>		<b>1417.13</b>	<b>Or Rs. 14.17 crore</b>

<sup>13</sup> 501.02 + 1663 = 2164.25 crore

<sup>14</sup> 20.11 + 21.52 = 41.63 crore

**PD Account: (Rupees in lakh)**

Sl No.	Year	Grant	In PD Account	Particulars
1.	2005-06	TFC	675.00	Computerisation of data base, financial assistance to PRIs
2.	2006-07	TFC	44.00 675.00	Maintenance of accounts Computerisation of data base, financial assistance to PRIs
	<b>Total</b>		<b>1394</b>	<b>Or Rs. 13.94 crore</b>

Thus the department failed to utilise Rs. 28.11 crore out of the allocated amount of Rs. 41.63 crore for the intended purpose and accounts were not made amenable to computerisation in a network environment till May 2009.

**2.2.8 Use of additional softwares for maintenance of accounts:**

On the recommendations of EFC, Government decided (November 2005) to computerise accounting system of PRIs. For this purpose, a software named "Pancha Lekha" was developed by the NIC. The NICSI installed this software in 116 JPs in November 2005 and in rest 197 JPs in August 2006. It was also observed that inspite it another software "Tally" was installed at the cost of Rs. 72 lakh for the maintenance of accounts at ZP/JP level of all the 48 ZPs by the orders of Secretary, Panchayat and Rural Development Department (December 2007).

It was further observed that the CEO, ZP Betul installed one additional software "Pratham" developed by MP State Electronics Development Corporation (May 2007) at the cost of Rs. 16.50 lakh for the maintenance of accounts of NREGS and other schemes of Rural Development Department at ZP/JP/GP level for the period 2008-09 with the approval of Collector (District Programme Coordinator of NREGS). On being pointed out, the CEO replied (January 2009) that "Pratham" software was installed at the direction of the District Collector as the accounts were required to be maintained in double entry system in NREGS and "Tally" software was installed with the approval of Panchayat and Rural Development Department due to non-maintenance of accounts in "Pancha Lekha" software at district level.

The matter was reported to Collector Betul, PRD and Government (June 2009); reply was awaited.

**2.2.9 Availability of qualified manpower:**

For acquisition/ upgradation of skills of officials responsible for maintenance of accounts in computerised network environment trainings are essential requirement. The training was to be imparted by National Informatics Centre Services Incorporated (NICSI). It was observed that:-

- The Secretaries, responsible for the preparation of income and expenditure statement in GPs were not imparted accounts training/ computer training.

- According to EFC recommendations, computer operators could be engaged for maintenance of accounts on contract basis, if staff/facilities were not available within the Panchayat. For maintenance of accounts in “Panch Lekha” software, NICS I provided five nodes to all 313 JPs of the State. A sum of Rs. 1.24 crore which was sufficient for engaging one computer operator at each JP of the State for one year only was provided by PRD to all JPs (2006-07). But computer operator was not engaged and the amount was still lying un-utilised with the JPs. The computerised accounts were not maintained in any of the test checked JP of the State (May 2009).
- Post of one accountant was sanctioned in every JPs but in 8<sup>15</sup> of 16 test-checked JPs, the posts were lying vacant. The officials working against the post of accountants were neither accounts trained nor those were given any operational training of accounts software like ‘Pancha Lekha’ or else.

Non posting of trained accountants resulted in non-submission of accounts by JPs to test-checked ZPs and Head of the Department through E-mail.

#### **2.2.10 Monitoring:**

The JPs were required to send the scheme wise monthly data in a text file to ZP for through e.mail for monitoring the same. The Secretary, Rural Development Department was also required to monitor these data on 10<sup>th</sup> of every month. A District Level Committee (DLC) headed by the Collector was also required to be constituted to monitor the monthly data feeding in “Pancha Lekha” Software. It was observed in audit that the JPs did not compile and transmit the monthly data to ZP, hence, the data could not be monitored at ZP/PRD/Government level. It was also observed that due to non formation of district level committee monthly monitoring was not carried out at district level.

#### **2.2.11 Conclusion:**

Non-maintenance of scheme wise cash books and ledgers, operation of multiple bank accounts, non-reconciliation of balances of cash book with bank pass books showed non-appreciation of the need for quality accounts maintenance in PRIs. Grant received form Eleventh and Twelfth Finance Commission for creation of database and maintenance of accounts either lapsed to Government or could not be utilised because of their deposition in personal deposit account. Although standard formats of budget and accounts prescribed by CAG were accepted by the State Government it was observed that different Janpad and ZPs were utilizing different softwares for preparation of accounts, with the resulted that uniformity in the preparation of monthly accounts was not observed. Inventory of assets under different programme of rural development was not prepared by the GPs. Lack of availability of accounts /computers trained staff at JPs level resulted in non-submission of monthly accounts through E-mail.

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<sup>15</sup> Chindwara- Amarawada, Pandurana, Harrai and Parasia.  
Betul- Athner.  
Balaghat- Birsa, Kirnapur and Parswada.



**2.2.12 Recommendations:**

- Action should be initiated to institute an effective mechanism for collection and compilation of funds flow and expenditure incurred by the PRIs for monitoring and decision making.
- Monthly income expenditure statements should be prepared at GP level, their compilation should invariably be done at JP level in the formats prescribed by CAG so as to exercise proper control and supervision over proper maintenance of accounts in Panchayats.
- Funds may be kept in saving bank accounts only and keeping of funds in current accounts /term deposit account may be discontinued.

**Date: 27<sup>th</sup> November, 2009**

**Place: Gwalior**

**(J S Kochar)**

Dy. Accountant General  
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**Countersigned**

**Date: 27<sup>th</sup> November, 2009**

**Place: Gwalior**

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