

CHAPTER I

AN OVERVIEW OF

**PANCHAYATIRAJ
INSTITUTIONS**

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1.1 Introduction

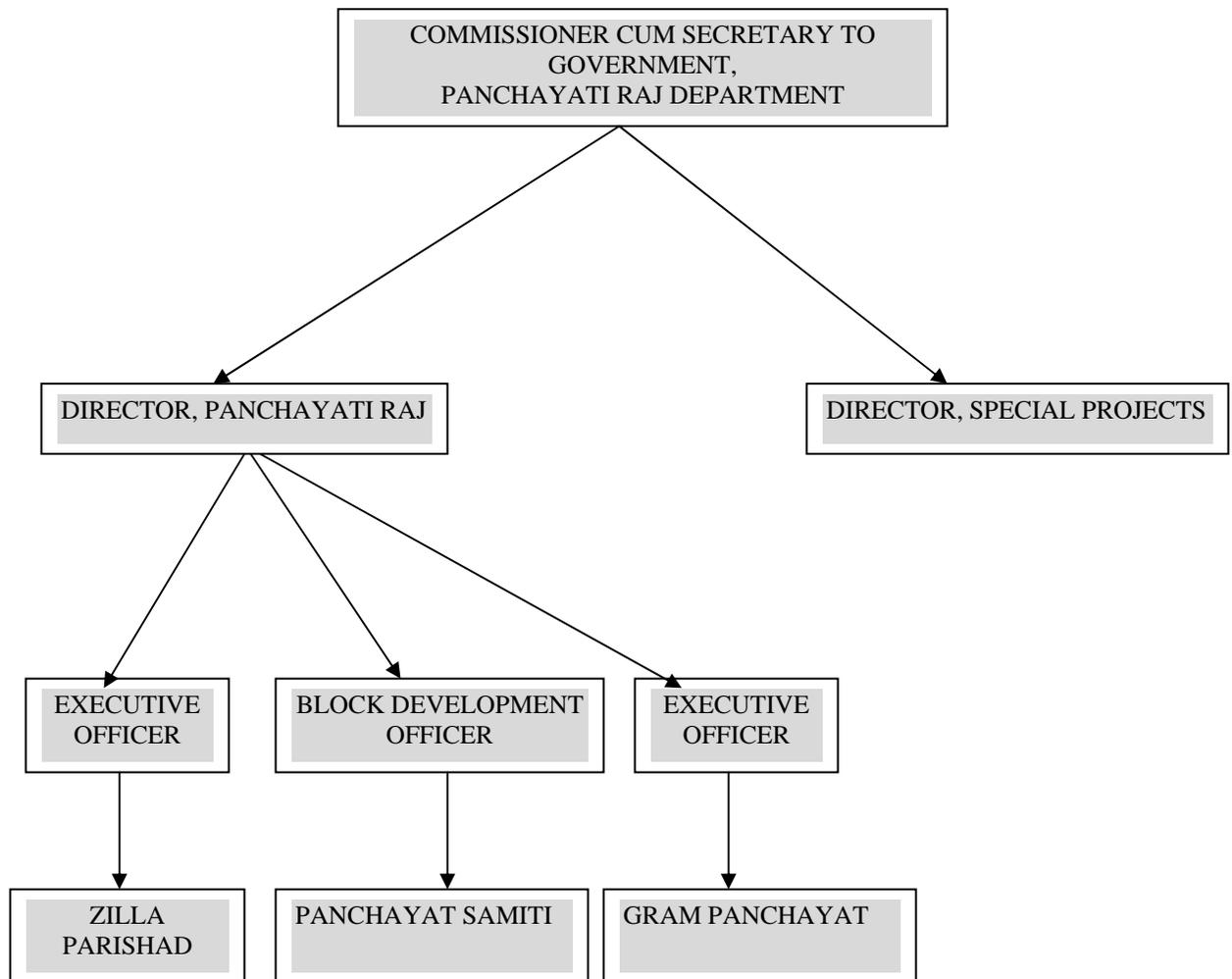
The Government of Orissa has enacted the Panchayat Samiti Act (1959), the Gram Panchayat Act (1964) and the Zilla Parishad Act (1991). The Government in pursuance of 73rd constitutional Amendment Act, 1992 made suitable amendments to the above Acts with a view to decentralize powers and strengthen the three tier structures of local governing bodies at the District, Block and village levels. At present, 30 Zilla Parishads, 314 Panchayat Samitis and 6234 Gram Panchayats are functioning in Orissa.

The Eleventh Finance Commission (EFC) recommended that the C&AG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and their audit for all the three-tiers/ levels of PRIs and Urban Local Bodies (ULBs). Accordingly, the State Government has entrusted responsibility for providing Technical Guidance and Supervision (TGS) to the CAG over the work of the Examiner, Local Fund Audit. Further, the State Government entrusted (20 per cent) audit of Gram Panchayats (September 2003) and Panchayat Samitis (May 2004) to the CAG of India under section 20(1) of the DPC Act. Presently audit of all PS is being conducted under section 14 of the DPC Act.

1.2 Organizational Set up

The Panchayati Raj Institutions (PRIs) function under the administrative control of the Panchayati Raj (PR) Department headed by the Commissioner-Cum Secretary and assisted by the Director (PR) and the Director (Special Projects) at the State level.

The organizational set-up of the PRIs is as follows:



The Zilla Parishad is headed by the President, Panchayat Samiti by the Chairman and the Gram Panchayat by the Sarpanch who are elected representatives of the respective PRIs.

At the District level, the Zilla Parishad (ZP) is constituted by the elected representatives headed by the president with the District Collector as the Chief Executive Officer (CEO). Under the CEO, one Executive Officer (EO) discharges day-to-day administrative functions of the Zilla Parishad.

The Panchayat Samiti (PS) functioning at the Block level is composed of elected representatives headed by the chairman of the PS with the Block Development Officer (BDO) as the executive head.

At the Gram Panchayat (GP) level, the elected members headed by a Sarpanch constitute the GP. The State Government by legislation has declared the Village Level Worker (VLW) as the Executive Officer entrusted with general superintendence and overall control of the GP who discharges his duties under the supervision of the District Panchayat Officer (DPO).

1.3 Devolution of Functions

The 73rd constitutional Amendmen Act 1992 envisaged devolution of funds, functions and functionaries to the Panchayati Raj Institutions (PRIs) to make them fiscally capable and autonomous. On the mandate of the above, the State Government devolved 21 subjects out of 29 enlisted in the 11th schedule to the control of 3-tier PRIs in July 2003. The remaining 8 subjects[‡] have not so far been transferred. No funds have been transferred to the PRIs in respect of 21 subjects already transferred to the PRIs.

1.4 Sources of Funds

For execution of various developmental works, the PRIs mainly receive funds from the Government of India (GOI) and the State Government in the form of Grants. The GOI Grants include grants assigned under the recommendations of Eleventh Finance Commission (EFC) & Twelfth Finance Commission (TFC). The

[‡] (1) Social Forestry and Farm Forestry (2) Small scale industries (3) Khadi, village and cottage Industry (4) Fuel and fodder (5) Rural electrification (6) Technical training and vocational education (7) Libraries (8) Cultural activities.

State government grants are received under the recommendations of State Finance Commission (SFC). Besides, the source includes the revenue earned by the PRIs out of their own resources such as taxes, rent, fees, issue of licenses, etc.

During 2005-06, Government provided financial assistance of Rs.230.79 crore by way of grants and loans to PRIs viz., Panchayat Samities, Zilla Parishads and Gram Panchayats.

1.5 Flow of Funds:

The State Government (Finance Department) on receipt of the EFC and TFC grants from the GOI releases the funds to the Panchayati Raj (PR) Department for further release to the PRIs. The GOI scheme funds and the State Government Grants are released to the PRIs through the state budget. Out of the total receipt of Rs.80.30 crore towards second installment of TFC grants for 2006-07, the State Government released Rs.72.04 crore in time. The balance of Rs.08.26 crore was released to the PRIs with the delay of 51 days.

1.6 Functioning of PRIs

The PRIs execute their functions through constitution of seven Standing Committees, namely:-

- Planning, Finance, Anti- poverty Programme and Co-ordination,
- Agriculture, Animal Husbandry, Soil Conservation, Horticulture, etc.
- Works, Irrigation, Electricity, Water Supply, etc.
- Health, Social Welfare, etc.
- Public Distribution System, Welfare of the Weaker Section, etc.
- Handicrafts, Cottage Industry, Khadi and Village Industries, etc.
- Education, Sports and Culture.

The over all monitoring and review of the programmes are conducted at the state level by the State level Co-ordination Committee (SLCC) and at the district level by the District Monitoring and Vigilance Committees.

1.7 Accounting Arrangement

The Executive Officer is responsible for maintenance of accounts in Zilla Parishad and the Block Development Officer in Panchayat Samiti maintains the accounts with the assistance of Accountants. In case of Gram Panchayat, the Executive officer/Secretary maintains the accounts.

1.8 Audit Arrangement

The Examiner, Local Fund Audit (LFA) through District Audit Officers, Audit Superintendent and Auditors conducts audit of Panchayat Samitis (PS) and Gram Panchayats (GPs). As regards arrears, 16 nos of accounts[§] in respect of the Panchayat Samities of undivided Koraput District are pending for audit by the Examiner, LFA as on 31 March 2007. Similarly in respect of 2698 GPs, 9982 nos of accounts are pending for audit as of March 2007. The LFA has not taken up audit of the accounts of Zilla Parishads since their creation though it was entrusted to the LFA vide Orissa Zilla Parishad (Amendment) Act 2000.

Audit of 20 per cent of GPs and PS is also entrusted to the C&AG of India under section 20 (1) of the C&AG's (DPC) Act, 1971 including providing of TGS to the Examiner, LFA. While the audit of GPs are conducted by the C&AG under Section 20(1), the audit of PS and Zilla Parishads (ZPs) are conducted under Section 14 of the DPC Act.

1.9 Audit Coverage

The audit of the accounts of 23 ZPs, 161 PS and 1042 GPs for the year 2005-06 were test checked during 2006-07. The important audit findings are summarized in the succeeding paragraphs and chapters.

[§] Audit of one year's accounts is treated as one account.

1.10 COMMENTS ON ACCOUNTS

1.10.1 Unutilized Funds.

Test check of closing balances of the PRIs for the year ended 31 March 2006 revealed huge amounts relating to different scheme funds kept unutilized as shown under:

Name of the PRI	Number of PRIs	Amount (Rupees in crore)
Zilla Parishads	07	02.23
Panchayat Samitis	68	181.91
Gram Panchayats	257	15.45
Total	332	199.59

Poor utilization of funds indicated defective planning and inadequate monitoring depriving the beneficiaries from receiving intended benefits from the schemes.

1.10.2 Non-reconciliation of cash balances

In 4 ZPs and 19 PS, differences amounting to Rs.54.26 Lakh and Rs.7.82 crore respectively (Appendix-I) remained unreconciled as of 31 March 2006 between cash books and bank pass books. In the absence of reconciliation of cash balances, authenticity of accounts of these local bodies could not be ensured.

1.10.3 Non preparation of Budget Estimates

The annual Budget Estimate of ZP, PS and GP showing the probable receipts and expenditures for the following year are required to prepared and approved within the prescribed date by the authorized body.

Test check of 138 PRIs (8 ZPs, 29 PS and 101 GPs) revealed that none of the PRIs has prepared the budget estimates.

1.10.4 Non-preparation of Annual Accounts

Soon after the closure of the financial year, the annual accounts of ZPs and GPs should be prepared showing total receipts and payments during the year under different heads with opening and closing balances. In respect of PS, the Government of Orissa issued instruction (April 2004) to prepare Annual Receipt and Payment accounts in the formats prescribed by C&AG of India.

Scrutiny of records 8 ZPs, 29 PS and 102 GPs revealed the annual receipt and payment accounts were not prepared by any of the unit. Due to non-maintenance of accounts, the actual position of income and expenditure could not be verified and the accounts presenting true and fair view could not be ascertained.

1.10.5 Certification of Accounts

The State Government has not made any provisions in the State Acts/Rules for certification of accounts for the PRIs by the Examiner of Local Fund Audit.

1.10.6 Deficiencies in the maintenance of Cash Books

Test check of records of 16 PRIs (one ZP, five PSs and ten GPs) revealed that the maintenance of Cash Books were deficient in many ways. Some of the important deficiencies are as under:

- Cash Books are not maintained for months together.
- Physical verification of cash is not conducted.
- Heavy cash balances in excess of the prescribed limits and without immediate liability were retained.
- Consolidated Cash Book is not maintained in case where more than one Cash Books are in operation.
- Monthly analysis of closing cash balances is not prepared.
- Expenditures against which funds are not available are un-authorizedly accounted for in the Cash Book
- Interest earned in the Bank Pass Book is not regularly accounted in the Cash Book.

1.10.7 Non maintenance of Records

With a view to adopting uniform procedure for maintenance of accounts of PRIs, the Government issued instructions (April 2004) to maintain accounts in the formats prescribed by the C&AG of India, such as Annual receipt and payments accounts, Capital expenditure accounts, Statement of receivable and payables, Register for monthly receipts and payments, Monthly reconciliation statement, Accounts of movable and immovable property, Stock accounts, etc.

In addition to above, the C&AG also prescribed formats for creation of Database on Finances of PRIs. Records of test checked PRIs revealed that the said formats on accounts and the Database on Finances were not adopted. In the absence of the above, uniform accounts procedure is not maintained due to which financial and physical progress of the PRIs could not be ascertained.