

SECTION A

CHAPTER I

ACCOUNTS AND FINANCES OF PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

1.1.1 The Maharashtra Zilla Parishad and Panchayat Samitis Act, 1961 (ZP Act) and the Bombay Village Panchayat Act, 1958 (VP Act), were amended in 1994 in conformity with the provisions of the 73rd Constitutional Amendment. Consequently, a three tier system of Panchayati Raj comprising Zilla Parishads (ZP) at the district level, Panchayat Samitis (PS) at the block level and Village Panchayats (VP) at the village level was established in the State. The total rural population in the State in 2006 was 5.62 crore.

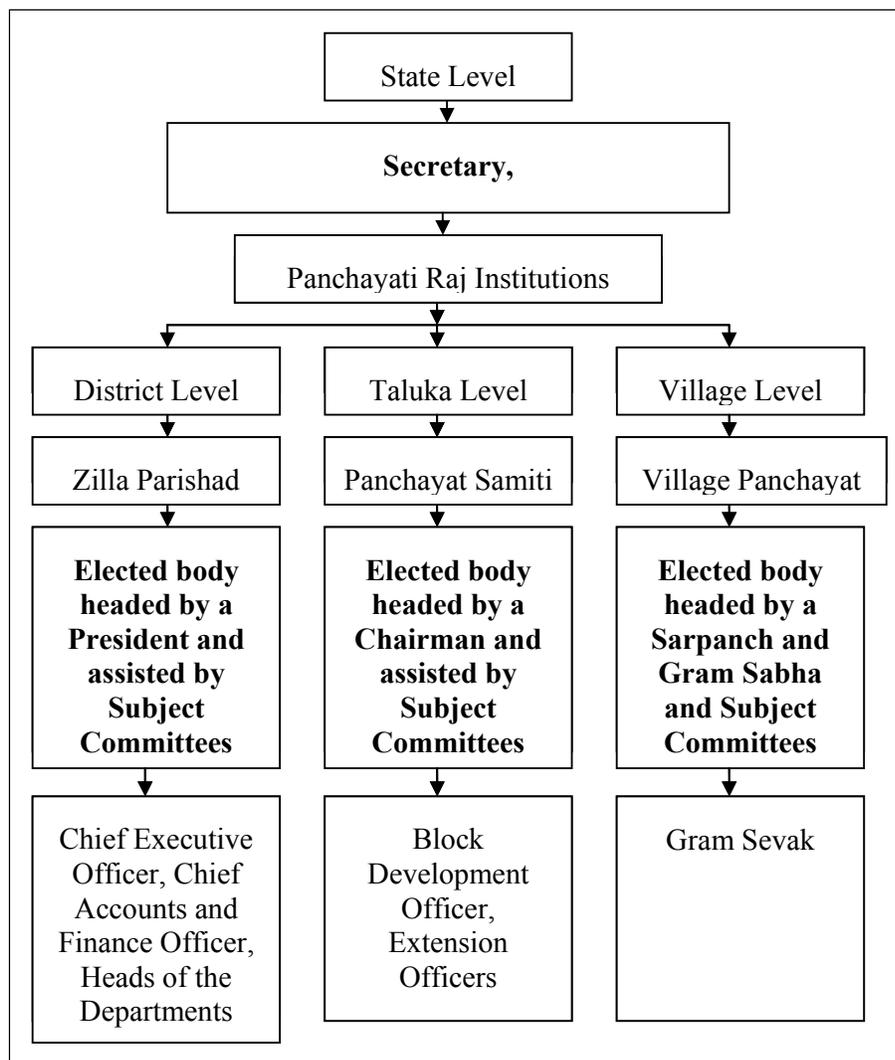
1.1.2 The amended Act provides for reservation of seats in PRIs for women and persons from weaker sections and elections overseen by the State Election Commission. Elections to PRIs were last held during 10-13 March 2007. The Act also envisages constitution of State Finance Commission (SFC) every fifth year to review the financial position of Panchayats and recommend (i) the distribution between the State and the Panchayats, of the net proceeds of taxes, duties, tolls and fees leviable by the State, (ii) taxes, duties, tolls and fees that may be assigned to the Panchayats and (iii) grants-in-aid to Panchayats and Status of Election and reservation. The first SFC was set up in 1994. Till date, three SFCs have been constituted in the State.

1.1.3 As required under Article 243 ZD of the Constitution, the State Government has not yet constituted District Planning Committees in the State.

1.2 Organisational Set up

1.2.1 The following organogram depicts the organisational set-up of Panchayati Raj Institutions in Maharashtra

ORGANOGRAM



1.3 Functions and Powers

1.3.1 ZPs are the district level PRIs in Maharashtra. As of March 2006 there were 33 ZPs in the State. Chief Executive Officers (CEO) are the administrative heads of ZPs and transact their business through several departments viz. Finance, Public Health, Agriculture, Works *etc* which are headed by ZP officers.

1.3.2 The ZPs are required to make budget provisions for the execution/maintenance of works for the planned development of districts by utilising local resources. The ZPs also implement schemes funded by the Government of India(GOI) through the District Rural Development Agencies and schemes transferred by the Government to the PRIs. The ZPs are empowered to impose water tax, pilgrim tax and special tax on land and building.

1.3.3 Panchayat Samitis constitute the intermediate tier of Panchayats at the Taluka level. There were 351 PSs in the State (March 2006). The PSs do not have any income of their own and are totally dependent on the Block Grants¹ received from ZPs. The PSs undertake developmental works at the block level out of the block grants and also execute schemes allotted to them by the ZPs.

1.3.4 Village Panchayats constitute the last tier of Panchayats at the village level. There were 28793 VPs in Maharashtra (March 2006).

1.3.5 The amended VP Act provides for the institution of Gram Sabhas which are bodies consisting of persons registered in the electoral rolls of villages within the area of a VP at the village level. The VPs are empowered to levy tax on buildings, betterment charges², pilgrim tax, taxes on fairs/festivals/ entertainments, taxes on bicycles and vehicles, shop keeping/hotel keeping, etc.

1.3.6 Gram Sabhas are required to convene periodical meetings and are entrusted with disciplinary control over VP employees. They have the power to select beneficiaries for the State/Central Government schemes, approve development plans and projects to be implemented by the VPs, grant permission for incurring any expenditure by the VPs on developmental schemes and convey their views before taking any decision in respect of any proposal for acquisition of any land falling within the jurisdiction of such VPs etc.

1.3.7 The broad details of accountability within the PRIs are as follows :

Authority	Functions
Zilla Parishad Chief Executive Officer (CEO)	<ol style="list-style-type: none"> 1. Drawal and disbursal of money from the District Fund³. 2. Finalisation of contracts, preparation of annual budget and accounts, supervision and control of officers of the ZP with regard to execution and administration of functions. 3. Publishing a statement of accounts approved by the Standing Committee together with statements of accounts of all PSs in the district, in the Government Gazette.

¹ As per Maharashtra Zilla Parishad and Panchayat Samiti Act, 1961, Section 188, the State Government shall every year give to Panchayat Samiti through Zilla Parishad of the district in which the block is situated a grant or grants for carrying out such works and development schemes of such types as the State Government may specify in this behalf, as enumerated in 2nd schedule.

² Charges on lands benefited from schemes or projects undertaken by a Panchayat from the Village Fund

³ Every district has a local fund called the District Fund as per Section 130(1) of the ZP & PS Act. Net proceeds of taxes, rents, profits, interest or sale proceeds, grants, loans assignments etc are credited to this fund.

Chief Accounts and Finance Officer (CAFO)	<ol style="list-style-type: none"> 1. Compilation of the accounts of the ZP 2. Providing financial advice
Heads of Departments (HODs)	<ol style="list-style-type: none"> 1. According technical sanctions to the works and developmental schemes of their departments. 2. Supervising the work of Class II officers of their departments. 3. Attending meetings of the committees of which they are the Secretaries.
Panchayat Samiti Block Development Officer (BDO)	<ol style="list-style-type: none"> 1. Drawal and disbursal of money out of the grants payable to the PS, in relation to works and developmental schemes to be undertaken from block grants 2. Exercise such powers of sanctioning acquisition of property or sale or transfer thereof as may be specified by the Government. 3. Preparation of statements of accounts of receipts and expenditure of the PS and placement of the same before it. 4. Preparation of abstract of accounts approved by the PS and forwarding of the same to the CEO.
Gram Panchayat Gram Sevak	<ol style="list-style-type: none"> 1. Secretary to the Gram Sabha 2. Responsible for execution and monitoring of schemes and maintenance of records.

1.4 Funding of Panchayati Raj Institutions

1.4.1 In ZPs, the District Fund is created by the funds received from the Central Government according to criteria adopted by the Finance Commission, various grants-in-aid for centrally sponsored schemes, funds from the State Government transferred to ZPs under the plan and non plan schemes, assigned tax and non tax revenues, miscellaneous receipts of ZPs, interest on investments, *etc.*

1.4.2 For implementation of planned schemes through the ZPs, the concerned administrative departments of the Government are required to release Plan funds (including Tribal sub-Plan grants), establishment grants⁴ and purposive grants⁵ to the ZPs. To tide over the time lag between the approval of the budgets and release of grants by the grant releasing departments, Ways and Means Advances are released initially by the Rural

⁴ Establishment grants are grants released by the Government to the ZPs for meeting the establishment expenditure of the staff transferred to the ZPs

⁵ Purposive Grants are grants released by the Government to the ZPs for meeting the expenditure on operation and maintenance of the schemes transferred to ZPs

Development Department on a monthly basis to ensure regular flow of funds to the ZPs for execution of the schemes/activities/works transferred to them and for payment of pay and allowances to the staff. The grants sanctioned by the administrative departments/grant releasing authorities are subsequently adjusted against these advances.

1.4.3 Grants and funds released by the Government to the ZPs are drawn from the respective district treasuries by CAFOs of the ZPs. The CAFOs release the funds to the PSs and VPs. The VPs and PSs incur expenditure out of funds made available to them. Bills presented by suppliers and contractors are admitted by PSs and VPs and cheques are issued out of these funds. Reconciliation of drawals with treasuries is required to be done by the respective CAFOs of ZPs at the close of each month.

1.4.4 A fund flow statement depicting the flow of funds to the PRIs is shown in **Appendix I**.

1.5 Devolution of funds

1.5.1 State Finance Commission recommendations and budget allocations to the PRIs

The Second State Finance Commission recommended that 40 *per cent* of State revenues should be allocated to the PRIs. The actual budget provision of the State vis-à-vis allocation to the PRIs during the three year period from 2002-03 to 2004-05 was as follows:

(Rupees in crore)

Sr. No.	Head	2002-03	2003-04	2004-05
1	Total budget provision of the State	69163	83894	102441
2	Allocation to PRIs ⁶	5391	5775	5903
3	Percentage	7.79	6.88	5.76

1.5.2 The table above indicates that the allocation to PRIs showed a declining trend and was less than 10 *per cent* of the total budget during the three year period from 2002-03 to 2004-05.

1.6 Transfer of functions and functionaries

1.6.1 The 73rd Constitutional Amendment envisaged that all 29 functions mentioned in the 11th Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments. The Ministry of Finance had also stipulated that such devolution should be completed upto 31 March 2002.

⁶ Figures furnished by Rural Development Department

Audit Report (Local Bodies) for the year ended March 2006

1.6.2 The State Government had transferred 139 schemes pertaining to 12 departments to the PRIs. As of March 2006, 35,981 functionaries pertaining to various departments were also transferred as detailed below:

Sr. No.	Name of the department	Number of schemes transferred to ZPs	Total staff transferred to ZPs
1	School Education	4	1503
2	Cultural Affairs and Sports	3	-
3	Women and Child Welfare	10	-
4	Water Supply and Sanitation	3	1262
5	Public Health	6	9010
6	Agriculture	37	20501
7	Water Conservation	8	-
8	Higher and Technical Education	1	-
9	Housing	2	-
10	Social Justice	40	2371
11	Animal Husbandry, Dairy Development and Fisheries	11	1320
12	Energy	14	14

1.6.3 The above details show that the corresponding staff of some of the major departments were yet to be transferred to the PRIs in the absence of which transferred schemes continued to be either implemented through the Government departments or were implemented by the ZPs without adequate staff.

1.6.4 Further, as against the 7565 sanctioned posts of Class I and Class II officers, 1558 (21 *per cent*) posts remained vacant as of August 2006. In the case of Class III and class IV employees, as against 3,53,859 posts, 21,106 (6 *per cent*) posts were vacant as of August 2006. Large scale vacancies in posts of Class I and II officers and non transfer of functionaries would affect the functioning of the PRIs.

1.7 Receipts and expenditure of VPs and ZPs

1.7.1 The position of revenue receipts/capital receipts, revenue expenditure/capital expenditure in respect of the PRIs for the period from 2002-03 to 2004-05 is as follows :

(A) Village Panchayats⁷

(Rupees in crore)

Year	Revenue Receipts ⁸	Revenue Expenditure	Percentage of increase
2002-03	775	544	-
2003-04	939	662	22
2004-05	1051	758	15

(B) Zilla Parishads⁹

(Rupees in crore)

Year	Revenue Receipt	Revenue Expenditure	Capital Receipts	Capital Expenditure
2002-03	7434	5791	1192	1270
2003-04	6777	6124	1530	1663
2004-05 ¹⁰	6191	6095	1801	1745

1.7.2 The following are the component wise details of the revenue expenditure of PRIs during 2003-04 and 2004-05.

(Rupees in crore)

Sr. No.	Components ¹¹	Village Panchayat		Zilla Parishad	
		2003-04	2004-05	2003-04	2004-05
1.	Administration	122	137	465	620
2.	Health and Sanitation	167	192	701	640
3.	Public Works	237	283	404	438
4.	Education	17	20	2845	2608
5.	Irrigation	-	-	146	153
6.	Agriculture	-	-	60	57
7.	Social Welfare	-	-	238	233
8.	Others	119	126	1265	1346
	TOTAL	662	758	6124	6095

1.7.3 The above table shows that the revenue expenditure of VPs increased from Rs 662 crore in 2003-04 to Rs 758 crore in 2004-05, registering an

⁷ Figures from Economic Survey of Maharashtra 2002-03 to 2004-05

⁸ Includes opening balances

⁹ Figures from Economic Survey of Maharashtra 2002-03 to 2004-05

¹⁰ Estimated figures

¹¹ Figures from Economic Survey of Maharashtra 2002-03 to 2004-05

increase of 15 *per cent*. During the year 2004-05, expenditure on public works constituted the largest component at 37 *per cent* followed by health and sanitation at 25 *per cent*. In the case of irrigation, agriculture and social welfare, no funds were received by the VPs, indicating that these schemes remained with the ZPs.

1.7.4 At the ZP level, although 37 schemes and 20,501 staff members of the Agriculture Department had been transferred to them, the expenditure incurred on agriculture was not only the least as compared to other components, it also showed a decline in 2004-05 when compared to 2003-04. While the expenditure on education showed 8.33 *per cent* decrease over the previous year, expenditure on public works showed an increase of 8.42 *per cent*. The increase in expenditure on administration in 2004-05 over 2003-04 was 33.33 *per cent*.

1.7.5 During a test check of 27 ZPs¹² for the year 2004-05, it was noticed that the expenditure incurred by ZPs' on their own schemes was less as compared to the expenditure incurred on Transferred/Agency Schemes. The details of expenditure incurred on the schemes are shown in **Appendix II**.

1.8 Accounting arrangements

1.8.1 In accordance with the provisions of Section 136 of the ZP Act, CEOs of ZPs are required to prepare every year statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year. These are then required to be placed before the Finance Committee before 10 August. Subsequently, the accounts are to be placed before the ZPs for approval alongwith the Finance Committee reports.

1.8.2 Similarly the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts. The Secretaries of the VPs are required to prepare annual accounts of the VPs. The approved accounts are to be forwarded to the ZPs on the prescribed date. The abstracts of the approved accounts of the ZPs/PSs and VPs are then prepared and forwarded to the Chief Auditor, Local Fund Accounts (CALFA) for audit and certification and thereafter, for publication in the Government Gazette.

1.8.3 As per the recommendation of the Eleventh Finance Commission, the Comptroller and Auditor General had prescribed the forms of accounts to be maintained by the PRIs. It was observed that although the Government adopted these formats in principle, none of the ZPs had implemented the same so far on the grounds that Maharashtra Zilla Parishads and Panchayat Samiti Account Code have not been amended suitably for the purpose.

1.8.4 The prescribed date for finalisation of annual accounts of ZPs for any financial year is 30 June of the following year. Accordingly, the accounts for

¹² Ahmednagar, Akola, Amravati, Beed, Buldhana, Chandrapur, Dhule, Gadchiroli, Gondia, Hingoli, Kolhapur, Latur, Nagpur, Nanded, Nashik, Osmanabad, Parbhani, Pune, Raigad, Ratnagiri, Sangli, Satara, Sindhudurg, Solapur, Thane, Wardha and Yavatmal

2005-06 should have been finalised by June 2006. However, it was observed that none of the 33 ZPs had finalised their accounts for 2005-06. Arrears in finalisation of accounts and certification thereof by the CALFA ranged between two to five years as detailed in **Appendix III**.

1.8.5 According to Section 136(9) of the ZP Act, the annual accounts of the ZPs, duly approved and certified by the CALFA for a particular year, were required to be published in the Government Gazette by 15 November of the subsequent year. However, information regarding the status of publication of the ZPs' accounts was not readily available with the Government. Although a procedure was prescribed for ensuring timely finalisation and publication of the accounts, the arrears, both in finalisation and publication, indicated laxity in internal controls. Absence of a proper management information system and the increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriations and other irregularities.

1.9 Creation of database on finances of Panchayati Raj Institutions

1.9.1 Government had reserved Rs 22.30 crore from the Eleventh Finance Commission grants for maintenance of accounts and for preparation of a database on the finances of PRIs. Out of this, Rs 5 crore was released during 2001-04 to the PRIs for purchase of computer hardware. The balance amount of Rs.17.30 crore, instead of being used for development of database, was released to the PRIs for implementation of schemes. As a result, a complete database on the finances of the PRIs was not available at any level of the PRIs and a comprehensive picture of the finances of PRIs was not available. The absence of consolidated information on finances of PRIs and the non-existence of a centralized agency for this purpose is a critical shortcoming in the context of increasing transfer of funds and responsibilities to them. Consequently, even Audit had to rely on other sources for data viz., budget documents of the State Government, reports of the Central Finance Commission/State Finance Commission and the Economic Survey of Maharashtra.

1.10 Allocation of funds as per recommendations of Eleventh and Twelfth Finance Commission

1.10.1 The State received Rs 591 crore from the GOI based on the recommendations of the Eleventh Finance Commission. As against this, the Government released Rs 821 crore including the State's share to the PRIs between March 2002 to February 2005 for implementation of various schemes such as primary education, primary health, provision of clean drinking water, street lighting and provision of public amenities, while Rs 5 crore was released for purchase of computer hardware for PRIs as mentioned in the preceding paragraph.

1.10.2 The State received the first instalment of Rs 198.30 crore from GOI in October 2005 as per the Twelfth Finance Commission's recommendations. Out of this, the Government had reserved Rs 28.30 crore for maintenance of database on the finances of PRIs and the balance sum of Rs 170 crore was

released to the PRIs in December 2005 for implementation of different schemes. The Twelfth Finance Commission's guidelines stipulated that the Government should release these grants to all the three tiers of PRIs within 15 days of receipt from the GOI. It was noticed that although the State Government issued orders for release of these grants between December 2005 and May 2006, 10 ZPs received the grants during December 2005 and June 2006 after delays ranging from two to seven months.

1.11 Audit arrangements

1.11.1 Audit of PRIs is conducted by the CALFA in accordance with provisions of the Bombay Local Fund Act, 1930 and rules under the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961. The CALFA prepares an Annual Audit Review Report on the financial working of PRIs for placement through the Government before the Panchayati Raj Committee which is a committee of the Legislature.

1.11.2 It was observed that local fund audit of ZPs was in arrears for periods ranging from one to three years. The Consolidated Audit Review Report for the year 2004-05 prepared by the CALFA was yet to be presented to the Legislature.

1.12 Internal Control

1.12.1 Internal controls are controls designed to ensure that rules, orders and procedures are followed by departments for effective functioning and achievement of objectives.

1.12.2 The CEOs of ZPs have powers to supervise and control the execution of all activities of the ZPs and call for any information, returns, statements, accounts or reports from the officers of the ZPs. The Divisional Commissioners are also required to inspect the offices of the ZPs.

1.12.3 The following irregularities noticed during test check of various records of PRIs revealed laxity in internal control.

- **Non-reconciliation of balances of cash book and bank pass book**

Test check of cash books and bank pass books of 9 ZPs¹³ revealed a total difference of Rs 48.05 crore in their balances as of 31 March 2006.

- **Unspent balances not credited to Government account**

As per the Resolution of October 1991 unspent grants lying with ZPs were required to be credited to the Government account by the end of August of the following year without waiting for completion of assessment by the respective administrative departments. In all the 11 ZPs¹⁴ test checked, unspent grants of

¹³ Beed, Chandrapur, Kolhapur, Nanded, Nagpur, Osmanabad, Parbhani, Wardha, Yavatmal

¹⁴ Chandrapur, Gondia, Latur, Nagpur, Nanded, Osmanabad, Parbhani, Raigad, Ratnagiri, Sangli, Solapur

Rs 231.25 crore relating to periods between 1992-93 and 2004-05 were not credited to the Government account as of March 2007.

- **Lapsed deposits not credited to revenue head**

As per the provisions of the Maharashtra Zilla Parishad and Panchayat Samiti Account Code, 1968, any deposits remaining unclaimed for periods exceeding three years were required to be treated as lapsed deposits and credited to the concerned revenue heads under the ZPs.

Scrutiny of records of five ZPs revealed that deposits amounting to approximately Rs 3.14 crore were lying unclaimed since 1993-94 to 2001-02 and were not credited to the concerned revenue heads even though the stipulated time limit of three years had elapsed. Details are shown in **Appendix IV**.

- **Inadequate contribution towards Depreciation Fund**

The correctness of amounts worked out as depreciation and sums credited could not be verified by Audit in the absence of any record of valuation of assets during a test check of the records of two ZPs¹⁵.

- **Misappropriation of funds**

During a test check of records of 18 ZPs¹⁶ it was observed that 3617 cases of misappropriation involving Rs 32.12 crore were pending at various stages of investigation as of March 2006. A break up of cases under investigation, cases in court and those pending due to other reasons is as follows :

(Rupees in crore)

Sr. No	Under investigation		Pending in court		Others		Total	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	2832	24.25	97	4.34	688	3.53	3617	32.12

Delays in settlement of these cases resulted in non-recovery of misappropriated amounts as well as delays in action against responsible persons.

- **Lack of response to Audit**

(a) Outstanding Paras from CALFA Report

As per the report of CALFA for the year 2004-05, 96631 and 41124 paras involving Rs 2962 crore and Rs 939 crore were pending for settlement in

¹⁵ Kolhapur, Sindhudurg

¹⁶ Akola, Alibag, Amravati, Aurangabad, Beed, Bhandara, Chandrapur, Dhule, Gondia, Hingoli, Kolhapur, Latur, Nanded, Nashik, Parbhani, Thane, Wardha and Washim

respect of Government funds and the ZPs' own funds respectively for the period from 1962 to 2004 as detailed in **Appendix V**.

(b) Outstanding Inspection Reports and Paras

Audit observations on financial irregularities and defects in initial accounts/records noticed during local audit by the Principal Accountant General/Accountant General but not settled on the spot were communicated to the heads of offices and departmental authorities through Inspection Reports. The more important and serious irregularities were reported to the Government. Statements indicating the number of observations outstanding for over six months were also sent to the Government for expediting their settlement.

At the end of March 2006, 185 Inspection Reports containing 659 paras of ZPs and PSs issued by Audit were pending settlement. The yearwise breakup of the outstanding reports and paras at the end of March 2006 is as follows:

Year	Inspection Reports	Paragraphs
Upto 2001-02	51	122
2002-03	59	177
2003-04	352	1190
2004-05	325	1072
2005-06	185	659

1.13 Conclusion

An overview of the functioning of PRIs in the State revealed that despite SFC recommendations, allocations out of the State budget to PRIs were meagre. Schemes had been transferred to PRIs without corresponding transfer of functionaries. There was no flow of funds from the ZPs to the VPs in case of components like irrigation and agriculture. The Twelfth Finance Commission's grants were disbursed to the PRIs after delays ranging from one to seven months. The Government had so far not implemented the revised accounting formats prescribed by the Comptroller and Auditor General of India as the Zilla Parishad and Panchayat Samitis Account Code was not suitably amended. Accounts of the ZPs were in arrears for periods ranging between two to five years and consequently, the audit by CALFA had also been completed only upto 2003-04. Instances of non-reconciliation of cash books, unencashed cheques, large number of misappropriation cases and outstanding audit paras indicate weak internal controls.

1.14 Recommendations

1.14.1 The following recommendations are made for consideration of the Government.

Devolution of funds and functionaries to the PRIs commensurate with the number of schemes/functions transferred to them.

Expeditious creation and maintenance of database of finances of PRIs.

Amendments of the ZP/VP Act and Account Code for implementing the revised accounting formats.

Strengthening of the internal control mechanism.

The matter was referred to Government in April 2007; reply had not been received (December 2007).