

# CHAPTER I

## AN OVERVIEW OF THE PANCHAYATI RAJ INSTITUTIONS

### 1.1 Introduction

1.1.1 In keeping with the 73<sup>rd</sup> Constitutional amendment, Uttar Pradesh Kshetra Panchayat and Zila Panchayat Adhiniyam was enacted in 1994 to establish a three-tier Panchayat Raj Institution (PRI) system of elected bodies-Gram Panchayats (GPs) at village level, Kshetra Panchayats (KPs) at intermediate level and Zila Panchayats (ZPs) at the district level.

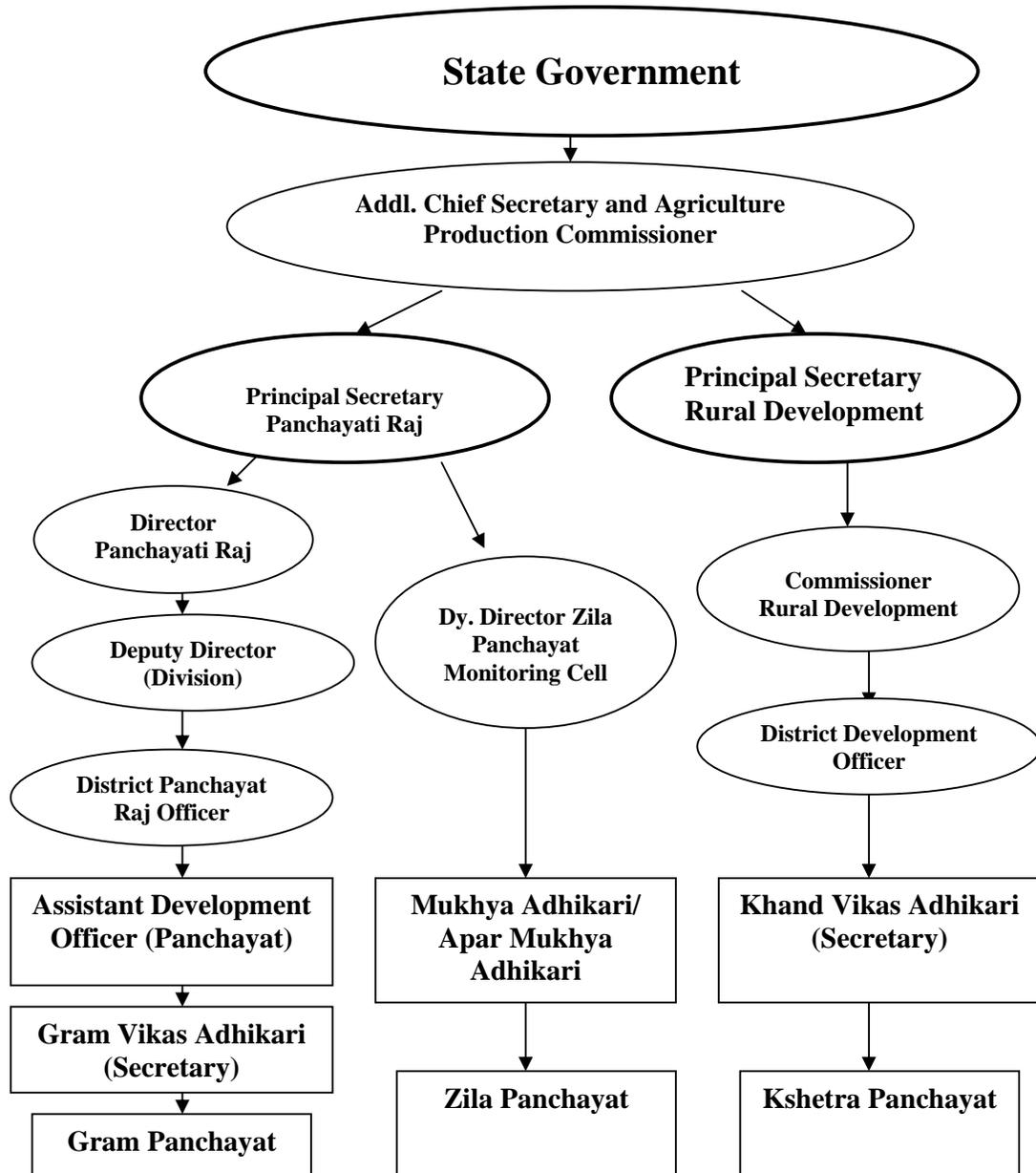
1.1.2 Besides paving way for decentralization of functions, functionaries and funds till then vested with Government, the (PRI) system aimed at increasing participation of people and effective implementation of rural development programmes. The overall supervision, co-ordination, planning and implementation of developmental schemes vested with the ZPs.

1.1.3 As of March 2005, there were 70 Zila Panchayats, 820 Kshetra Panchayats and 52002 Gram Panchayats in the state. The last election of PRI's were held in the year 2005.

1.1.4 The Act envisaged devolution of funds, functions and functionaries to PRIs. Of the twenty-nine functions listed in the 11<sup>th</sup> Schedule of the Constitution which were to be transferred to PRIs by the State Government, only twelve functions have been transferred till date (July 2007).

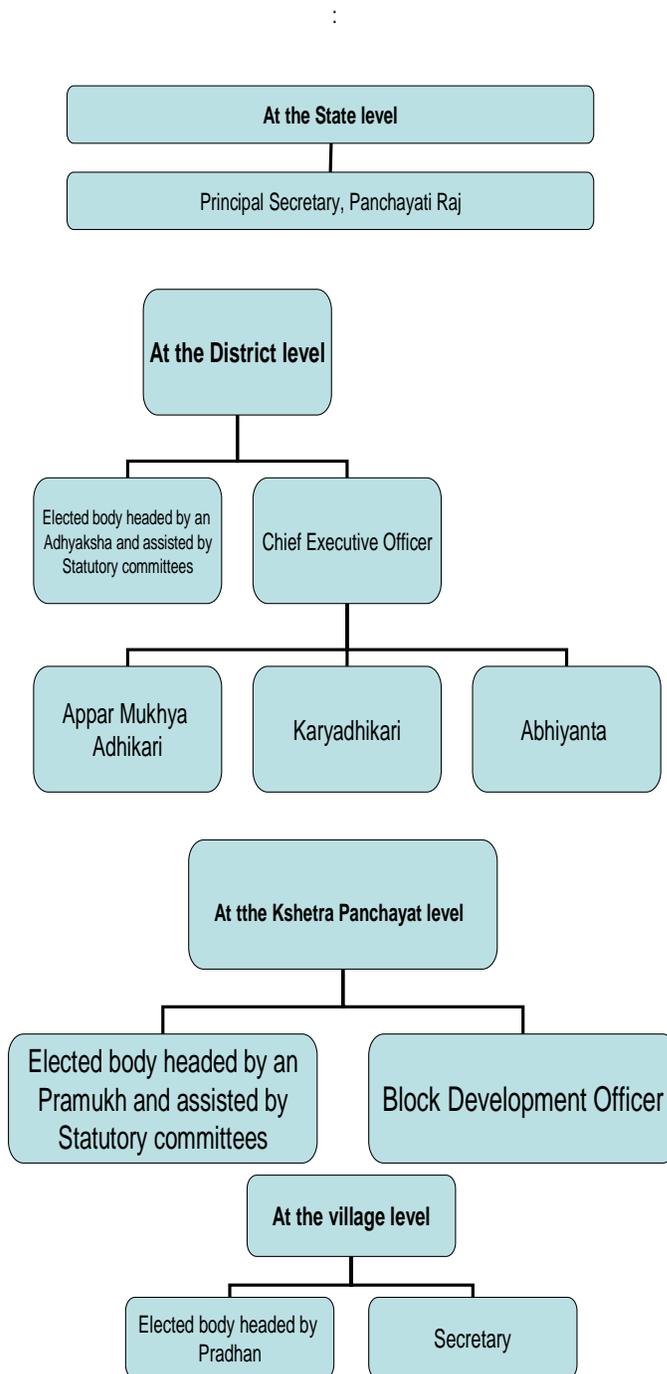
## 1.2 Organizational Setup

1.2.1 The Administrative control of the various units of PRIs is shown as below:



While the '*Adhyaksha*' heads the Zila Panchayats, '*Pramukh*' and '*Pradhan*' head the Kshetra Panchayats and Gram Panchayats respectively.

1.2.2 The organizational structure is as shown below :



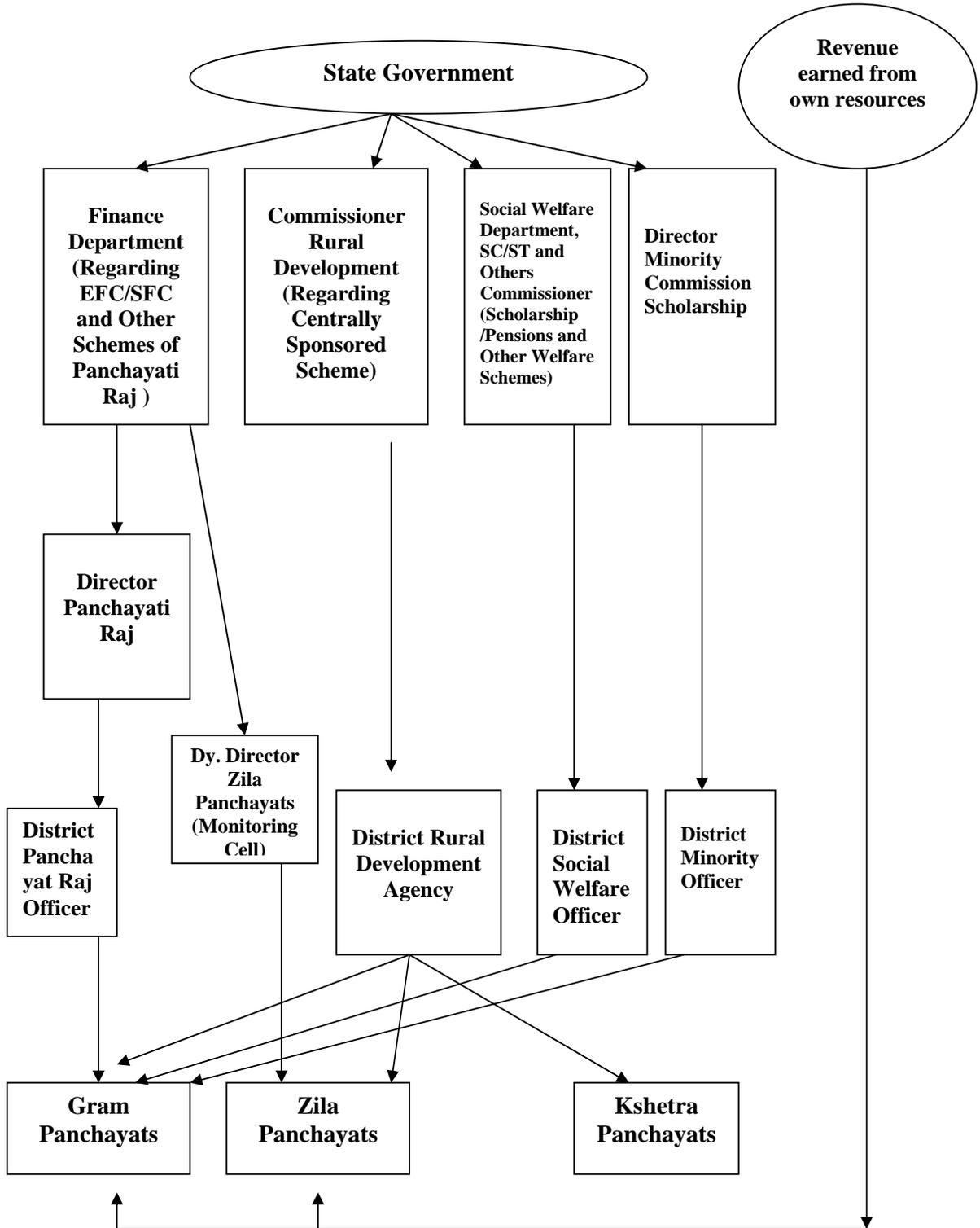
### **1.3 Funding of Panchayat Raj Institutions**

- 1.3.1 The State and Central Government release funds to the PRIs in the form of grant for general administration and development activities. The State Government releases block grant every quarter and every month in the last quarter. The Central Government also releases funds through District Rural Development Agencies to PRIs for development activities. The funding by the State Government is on the lines of accepted recommendations of the State Finance Commission including factors like population, literacy, irrigation, medical facilities, etc. Allocation to PRI's are made from 4% of net proceeds of the total tax revenue of the State Government under the recommendation of the State Finance Commission.
- 1.3.2 The ZPs deposit these grants as well as receipts from other sources, in Zila Nidhi maintained in treasury or in a nationalized bank. The ZPs also deposit sums received from Government of India and money received from externally aided projects in bank accounts, as stipulated in scheme guidelines.
- 1.3.3 The KPs conduct their financial transactions through KP's fund held in treasury or bank. The GPs carry out their financial operation through GP funds in any approved scheduled bank/co-operative bank.

**1.4 Flow of Funds**

The flow chart of funds to PRIs is shown as under:

**Funding in PRIs – a schematic presentation**



## 1.5 Release of grants

The State Government (Finance Department) releases grants to the established PRIs on the recommendations of EFC and SFC. The State Government releases funds directly to ZPs under intimation to the Deputy Director Zila Panchayat (Monitoring Cell). In respect of GPs, the State Government releases funds to the District Panchayati Raj, who, in turn, allocates them block-wise through allotment order under intimation to District Panchayat Raj Officers (DPROs). The DPRO further allocates the share of the GPs on the basis of total population, population of scheduled caste/scheduled tribes and area of a Gram Panchayat and issues advice to the Bank for crediting the amounts into the accounts of the respective GPs. The position of grant and food grains received during 2001-05 under Sampuran Gramin Rojgar Yojna (SGRY), Swarn Jayanti Gram Swarajgar Yojna (SGSY), Eleventh Finance Commission (EFC), and State Finance Commission (SFC), was as under:-

### 1.5.1 FINANCIAL POSITION OF SGRY <sup>1</sup>

(Rs. in crore and food grain in MT)

Year	Allotment		Expenditure		Balance	
	Funds	Food grains	Funds	Food grains	Funds	Food Grains
2001-02	488.85	153.85	333.67	80.63	155.18	73.22
2002-03	1306.21	933.122	928.45	735.477	377.76	197.645
2003-04	1235.06	720.455	1105.27	654.739	129.89	65.716
2004-05	1190.28	790.13	1064.68	712.497	125.60	77.633

### 1.5.2 FINANCIAL POSITION OF SGSY <sup>1</sup>

(Rs. in crore)

Year	Fund Available	Expenditure	Balance
2001-02	263.79	155.36	108.43
2002-03	225.50	147.21	78.29
2003-04	256.06	195.64	60.42
2004-05	315.24	276.30	38.94

### 1.5.3 ELEVENTH FINANCE COMMISSION <sup>1</sup>

(Rs. in crore)

Year	Fund Available	Expenditure	Balance
2000-01	233.42	191.35	42.07
2001-02	233.42	233.42	0.0
2002-03	233.42	233.31	0.11
2003-04	221.62	221.20	0.42
<b>2004-05 Zila Panchayats only</b>	93.35	54.29	39.06

Rs. 42.07 crore related to database development and computerization. This amount is lying in PLA for want of sanction from Government of India. Rs. 0.53 crore lapsed due to its non drawal in time.

### 1.5.4 STATE FINANCE COMMISSION

(Rs. in crore)

Year	Fund available	Expenditure	Balance
2000-01	362.76	359.65	3.11
2001-02	381.99	366.88	15.11
2002-03	382.10	372.45	9.65
2003-04	550.00	372.23	177.77
2004-05	778.44	710.22	68.22

### 1.5.5 Position of revenue realized from own resources during the year 2004-05 <sup>2</sup>

(Rs. in crore)

Name of units	Opening balance	Demand for the current year	Total	Recovery	Outstanding recovery
ZP	47.92	63.44	111.36	58.28	53.08
KP/GP	Nil	Nil	Nil	Nil	Nil
Total	47.92	63.44	111.36	58.28	53.08

Amount shown under outstanding recovery includes Rs. 1.03 crore which was outstanding for more than 10 years. This was indicative of the fact that no sincere efforts were made by ZPs and monitoring cell to realize the old outstanding amounts.

<sup>1</sup> Source: These figures are based on the information given by Director, Panchayati Raj, Uttar Pradesh, Lucknow.

<sup>2</sup> Source: These figures are based on the information given by Dy. Director, Zila Panchayat Monitoring Cell Lucknow and not based on the report of Audit.

**1.5.6 FINANCIAL POSITION OF ZPs,KPs and GPs Audited during the year 2005-06 (As appendix VI to VIII)**

**(Rs. in crore)**

Year 2004-05						
Name of Unit	No. of Units	O.B.	Receipt	Total Receipt	Expenditure	Closing Balance
ZP	41	175.33	273.44	448.77	294.91	153.86
KP	105	26.21	88.92	115.13	79.69	35.44
GP	1668	10.43	43.47	53.90	43.38	10.52
<b>Total</b>	<b>1814</b>	<b>211.97</b>	<b>405.83</b>	<b>617.80</b>	<b>417.98</b>	<b>199.82</b>

Government did not frame rules and manuals for preparation of budget and accounts in PRIs in tune with the revised accounting formats. This contributed to the poor accounting and financial reporting by the PRIs.

**1.6 Organisational structure and accountability**

1.6.2 Different tiers of PRIs function under the overall direction of six committees for different works as detailed under:-

S.NO.	NAME OF THE COMMITTEE	WORK OF THE COMMITTEE	CHAIRMAN OF ZP/ KP/GP
1.	Planning and Development Committee	1.To prepare plan for development of ZP area. 2.Implementation of programmes related to Agricultural live stock and poverty eradication.	Adhyaksha/ Pramukh/ Pradhan
2.	Administrative Committee	All cases related to the establishment of ZP Staff. Cases related to the rationing shops.	Adhyaksha/ Pramukh/ Pradhan
3.	Education Committee	Elementary education, Adult and non formal education and implementation of programme of adult literacy.	Upadhyaksha/ Upapramukh/ Upaparadhan
4.	Works Committee	To carry all types of construction and maintenance work and to ensure its quality.	Any elected member of the Body
5.	Water Management Committee	Proper management and maintenance of Tube wells and plans of drinking water.	Upadhyaksha/ Upapramukh/ Upaparadhan
6.	Health & Welfare Committee	Medical, Health & Family Planning and Social Welfare, Specially Programmes related to Women and Child Welfare	Any elected member of the Body

### **1.7 Preparation of Annual Budget**

Although there exists provision for preparation of an annual budget by each unit of PRIs under the existing accounting rules, none of the test checked KPs and GPs had prepared the annual budget.

### **1.8 Accounting Arrangement**

Accounts are being maintained by Accountant/Account Clerk in Zila Panchayat and Kshetra Panchayat and by Chartered Accountant/Village Development Officer in Gram Panchayat. The Government of Uttar Pradesh accepted (March 2003) Budget and Accounts formats for PRI prescribed by the C&AG of India. But it had not been implemented in the first and second tier (Zila Panchayat and Kshetra Panchayats) whereas in third tier (Gram Panchayats) Chartered Accountants are maintaining the accounts in 52001 GPs. Accounts up to the year 2003-04 have been maintained by CAs in respect of 52001 Gram Panchayats. Accounts for the year 2004-05 and 2005-06 are in the process.

### **1.9 Audit Arrangement**

The Chief Audit Officer (**CAO**), Cooperative Societies and Panchayats acts as Primary Auditor for all three tiers of PRIs through the District Audit Officer (**DAO**) at district level. Audit by C &AG of India flows out of the entrustment of Technical Guidance and Supervision under section 20(1) of the C&AG's (DPC) Act, 1971 as well as from section 14 of the DPC Act, wherever applicable.

## 1.10 **Audit Coverage**

Test audit of the accounts of 41 Zila Panchayats (**Appendix-I**), 105 Kshetra Panchayats (**Appendix-II**) and 1668 Gram Panchayats (**Appendix-III**) for the year 2004-05 was conducted during 2005-06. The important audit findings are summarized in the succeeding paragraphs and chapters.

## 1.11 **Comments on Accounts**

### 1.11.1 **Irregular transfer of Rs. 88.72 lakh.**

As per rule, grants received from the Government should be deposited in PLA account in treasury. Any withdrawal from PLA could be made for payment only. Scrutiny of records of ZP, Bagpat revealed that Rs. 40.00 lakh was drawn from PLA account and transferred to Punjab National Bank account. Similarly in ZP, Moradabad Rs. 47.65 lakh and Rs. 1.07 lakh was transferred from PLA to Zila Sahkari Bank and District Co-operative Bank respectively during August 2003 - March 2005 without prior approval of the State Government.

### 1.11.2 **Difference in Accounts**

The opening balance of the 5 Zila Panchayats on 1<sup>st</sup> April 2004 under Sampurna Gramin Rojagar Yojana (SGRY) on the basis of the utilization certificates made available to the directorate and as per records provided to audit were, as under:-

(Rs. in lakh)

Sl. No.	Name of Z.P.	Amount as per records provided to Audit	Amount as reported to Directorate	Difference
1	Ghaziabad	100.00	103.29	-3.25
2	Jaunpur	188.38	275.26	-86.88
3	Lucknow	63.20	100.14	-36.94
4	Mathura	66.10	103.83	-37.73
5	Sultanpur	44.90	98.63	-53.73
	Total	462.58	681.15	-218.53

Evidently, the inflated figures were reported to higher authorities to obtain higher amount of grant.

The matter was referred to the Deputy Director, Monitoring (Cell), Zila Panchayat, Uttar Pradesh Government (June 2006), reply was awaited.

### 1.11.3 Value of Food grains not taken in accounts.

Under SGRY, food grains were being received and distributed as part of wages along with minimum of 25% of the wages in cash. The position of food grains received and distributed in the test checked ZPs during 2004-05 was, as under:-

Sl.no.	Name of unit	Quantity Received from DRDA in Qntl	Money Value in Crores	Quantity Distributed in Qntl.	Money Value in Crores
1	Allahabad	53216.41	2.66	N.A	-
2	Balrampur	N.A	-	17674.00	0.88
3	Gorakhpur	3157.90	0.22	1850.00	0.13
4	Mahamaya Nagar	N.A	-	15102.36	0.76
5	Moradabad	18325.67	0.92	12176.00	0.61
6	Rampur	6538.00	0.33	5552.00	0.28
7	Shrawasti	12614.00	0.63	12605.54	0.63
8	Siddharth Nagar	5488.67	0.38	3334.41	0.23
9	Sultanpur	8791.22	0.44	4954.95	0.25
	<b>Total</b>	<b>108131.87</b>	<b>5.58</b>	<b>73249.26</b>	<b>3.77</b>

From the above table it would be seen that against the lifted quantity of 1081.32 MT of food grains, costing Rs. 5.58 crore, the ZPs could distribute only 732.49 MT of food grains costing Rs. 3.77 crore. Thus the shortfall in distribution was to the extent of 32percent It was also noticed that the cost of food grains as lifted and distributed was not incorporated in budget and accounts of ZPs, though the cost food grains was forming part of the wages. Due to this, the exact financial position could not be reflected in accounts.

### 1.12 Lack of Internal Control

The monitoring cell of PRIs is responsible for watching distribution and utilization of grant, collection of revenues from own resources, maintenance of accounts in the format prescribed by C&AG and settlement of objections raised by audit. The main objectives of sound internal control systems in an organization are:-

- ❖ Promoting orderly, economical, efficient, and effective operations and quality products and services consistent with the organization's missions;
- ❖ Safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud and irregularities;
- ❖ Adhering to laws, regulations, and management directives; and
- ❖ Developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.

During test audit of the accounts of PRIs for the year 2002-03 to 2004-05, numerous cases of poor financial management and financial irregularities resulting in infructuous and excess expenditures, and loss of revenue etc were noticed as detailed in Para which revealed that the accounting system and internal controls were extremely weak in PRIs.

### **1.13 Recommendations and Conclusions**

Internal Control and monitoring mechanism at the level of the Panchayati Raj Department and Rural Development Department as well as at the level of individual PRIs relating to the following areas needs to be strengthened :-

- ❖ Implementation of Budget and Accounts formats prescribed by the C&AG.
- ❖ Proper and timely maintenance of Accounts. Un-reconciled differences should be adjusted/ rectified immediately.